

**PERFORMANCE-BASED BUDGETING:  
EVIDENCE FROM INDONESIA**

**By**

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## **Abstract**

This thesis investigates the implementation of performance-based budgeting through a case-study of Indonesia. It examines the use by government officials/practitioners of performance information in the planning and budget-making process at the national level within Indonesia. In particular, the thesis assesses the impact that performance results have on budget allocations vis-a-vis other factors affecting budget allocation decisions. It also identifies the key challenges for government officials in seeking to implement a performance-based budgeting regime, especially, the challenge of moving the actual practice of budgetmaking model further away from a traditional incremental approach.

The research for the thesis has involved a combination of qualitative and quantitative analysis, with three different data collection methods deployed. Interviews were conducted with fifty three government officials from the Ministry of Planning, the Ministry of Finance, seven other ministries/agencies and Parliament. A questionnaire was also designed and administered with seventy nine line ministry/agency officials. Finally, statistical analysis of performance scores and budget data was undertaken for 435 spending programmes covering 86 line ministries/agencies over the period 2011-2014.

A key conclusion from the study is that Indonesia has made significant efforts in the direction of using performance information in its budgetary planning processes. The Ministry of Planning, the Ministry of Finance, and line ministries/agencies have been particularly active in leading change in this respect. That said, the evidence gathered

from the interviews, questionnaire responses and statistical analysis clearly show that, as elsewhere around the world, the impact of performance information on resource allocation decisions has, so far, been quite limited, and that incrementalism continues to dominate budgetary decision-making. While performance information is becoming increasingly important for managerial purposes within line ministries/agencies, the more challenging goal of breaking well-established budget-setting practices and instituting a more performance-driven allocation model is largely still to be achieved.

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## **Related Output**

Paper presentation on International Research Society for Public Management (IRSPM) Conference Birmingham, UK 30 March – 1 April 2015: Does Performance Information Influence the Budget? Evidence from Indonesia.

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## List of Abbreviations

ADB	Asian Development Bank
APBN	The State Budget
BPK	The Audit Board of Indonesia
DGB	Directorate General of Budget
DIPA	Budget execution document
DPD	The House of Regional Representatives
DPR	The House of Representatives / The Parliament
GOI	Government of Indonesia
KY	The Judicial Court
LPNK	Non-ministerial government institutions
LKPP	Government Procurement Policy Agency
MA	The Supreme Court
MK	The Constitution Court
MOF	Ministry of Finance
MOP	Ministry of Planning / The National Planning and Development Agency (BAPPENAS).
MPR	People's Consultative Assembly
MTEF	Medium Term Expenditure Framework
PMK	Minister of Finance Regulation
OECD	The Organisation for Economic Co-operation and Development
RAPBN	The State Budget Draft
RENSTRA	Strategic Plan
RENSTRA-KL	Strategic plan of line ministries/agencies
RENJA-KL	Annual work-plan of line ministries/agencies
RKAKL	Annual Work Plans and Budget Documents of line ministries/agencies
RKP	Annual Government Work-plan
RPJPN	Long-term National Development Plan Document
RPJMN	Medium-term National Development Plan Document

# **Chapter 1 - Introduction**

## **1.1 Background to the Research**

The last two decades have witnessed a wave of enthusiasm for performance-based budgeting reforms both in advanced and developing countries (Shah and Shen, 2007, p.137). The motives for budget reforms vary across countries, and include: financial crisis, pressure to reduce public expenditures, and change in political administration (OECD, 2007, p. 24). Performance budgeting is considered by Hawkesworth, Melchor, and Robinson (2013, p. 2) to offer two potential benefits for governments: the forging of a clear link between public funding allocations and government priorities and the possibility of making savings in baseline expenditure through enhanced efficiency. Although there is no standard definition of performance-based budgeting, definitions generally include a concern with the use of performance information in budget processes and budget allocations (OECD, 2007, p. 20). A number of research studies have provided insights into the use of performance information in budgeting. Behn (2003, p. 588) proposes that performance information can be used for eight managerial purposes one of which is budgeting, the other seven being evaluating, controlling, motivating, promoting, celebrating, learning, and improving. Hatry (2008, p. 232) suggests that performance information is used in the budgeting process for three reasons: preparation of the budget, justification of the budget proposal, and fulfilment of the requirements of senior officials. Robinson (2014a, pp. 8-9) similarly argues that performance information can contribute to budgeting in three main ways: helping to improve expenditure prioritisation; putting increased pressure on ministries/agencies to improve the effectiveness of their

programmes; and ensuring that the budget promotes the efficiency within ministries/agencies.

It has been remarked that performance budgeting is easy to explain but has been hard to implement (Schick, 2007, p. 122). The challenge faced by governments is to use performance information in the budget processes and budget allocations. Schick (2007, p. 123) argues that if performance-based budgeting is defined as a budget system that formally links increases in spending to increases in results, only a few governments would qualify as having systems that conform with this definition. The OECD survey showed that although 79% of respondents from the OECD countries indicated that performance results are used as part of budget discussions between their Ministries of Finance and line ministries, two-thirds also indicated that they did not directly link performance results to allocations (Curristine, 2005, pp. 103-105). The most recent OECD Performance Budgeting Survey in 2011/2012 also provided similar evidence. Performance budgeting frameworks in the OECD countries are generally flexible and not linked with budget decisions (OECD, 2014). In fact, with a few exceptions, in certain areas such as education and health, no OECD countries were found directly to link public expenditures to performance information. While performance information was being used to inform the budget, it was not determining it (Hawkesworth and Klepsvik, 2013, p. 120).

The literature shows that despite the potential use of performance information for budgeting purposes and the aspirations towards performance-based budgeting, the actual use of performance information in determining budgets has to date been minimal. In the USA, Gilmour and Lewis (2006) conducted a regression analysis of the PART (Program Assessment Rating Tool) scores on changes in the President's

proposed budget, and found a modest but significant positive correlation. Their findings were in line with the result of a qualitative study by White (2012) who found that the influence of the PART on budget allocations to be marginal. Another qualitative study of performance-based budgeting (PBB) in eleven states of the USA by Hou and Lunsford et al (2011) found that performance budgeting was not necessarily useful for budgetary decision-making during times of financial hardship. Zaltsman (2009) used qualitative analysis to investigate the use of performance information in budget allocations by Chile's budget bureau. He found that performance information did not affect budget allocation decisions. Melkers and Willoughby (2005) examined the effects of performance information on budgetary decision-making and other operations from a survey data of administrators and budgeters from nearly 300 local governments in USA. They found that respondents doubted the effectiveness of performance information for budgetary purposes such as changing the appropriation level, reducing ineffective programmes, or reducing duplicative services. In contrast with other studies, Ho (2011) examined the implications of performance information at the sub-departmental programme levels in the city of Indianapolis in USA and found that performance measurement was positively related to intra-departmental programme budget changes. Joyce (2011) has argued that the availability of performance information does not automatically affect allocations as the budgeting process involves a political process.

While the impact of performance information on budget allocations has thus far been seemingly quite limited, Shah and Shen (2007, pp. 151-153) summarised four important advantages of the implementation of performance budgeting. Firstly, they suggest, it enhances communication between budget actors and with the public. In this respect, performance budgeting clarifies programme goals and objectives and

identifies performance targets and line ministries/agencies and government officials develop a better understanding about their performance. Secondly, performance budgeting improves management within ministries/agencies. Performance budgeting reforms can help programme managers to specify clear organisational goals, monitor programme performance more carefully, maintain better knowledge of problems, plan more creatively for the future, improve internal control, and communicate programme results more effectively. Thirdly, performance budgeting may play a role in informing budget allocation decisions. Performance budgeting adds value to budget discussions because performance information may be used to justify the reallocation of resources, to change the orientation of discussion from line items to performance, to influence decisions about new programmes, and to influence the increases and decreases of funding. Fourthly, it enhances transparency and accountability. The budget document can serve as a major tool of transparency and accountability for the legislative body and public. Performance budgeting classifies resources by programmes and enables better presentation of performance information for the public so that they can gain a better sense of major government activities and their achievements.

Other than performance information, there are several other aspects of budgeting in the public sector that may affect not only the budgetary decision-making but also budgeting reforms. Budgeting in the public sector is a complex process and fundamentally different from budgeting in the private sector (Folscher, 2007, p. 109). Folscher (2007, p. 110) argues that the aim of public sector budgeting is not to make money or profit by spending money. The goals of spending through the public budget are complex, difficult to measure and they may not be directly associated with the activities and money allocated to them. Public budgeting exists in a political environment where different goals compete for a restricted source of funding. Line

ministries have a tendency to maximise their budget requests without considering the needs of other line ministries and the effects of their actions on what is available for other ministries. The practice of budget maximisation (i.e. seeking the highest possible allocations) occurs between line ministries and central budget authorities as much as it happens between different spending divisions and budget divisions within line ministries. A single tool or a single methodology to decide between budget needs or budget proposals does not exist. In extreme situations, budgeting is inherently political rather than rational; it means that purpose supposed process budget prioritisation may be illusory (Robinson and Brumby, 2005, p. 15).

Budgetary decision-making is rarely made in a single office by a single individual (Folscher, 2007, p. 111). Budget processes involve complex institutional arrangements for sequenced and often collective decision making. An important feature of public budgeting is that those who hold the best information about the performance of programmes are rarely those who make the funding decisions. Line ministries generally have better information on how best to allocate resources to achieve the objectives of programmes. Considering the fact that budgetary decision-making involves many institutions and officials and creates principal-agent relationships, there is much potential for agency problems within the budget process. As Hou et al (2011) suggest, the government can be seen as being the agent that prepares the budget, while the legislators are the principals that examine and authorise it. Folscher (2007, p. 111) also highlights various principal-agent relational issues that are potentially problematical. The relationship between finance ministries and line ministries, for example, is typically problematical in this respect, with hidden information and hidden actions often persisting. Other principal-agent problems in the



budget process are frequently found between heads of line ministries and officials, and between the centre of a line ministry and other divisions within the same ministry.

Despite the emergence of performance-based budgeting, the traditional budgeting model, i.e. incremental budgeting, arguably still dominates the budgetary system as it operates in practice. Folscher (2007, pp. 123-124) argues that “many of the modern approaches to budgeting are located on a spectrum between incrementalism and pure comprehensive rationality.” However, Schick (2003) has argued that budgeting is permanently incremental, not only for allocation purposes but also for the adjustments of its operating rules and procedures. The incrementalist approach is still used by budget officials for budgetary decision-making. Schick (2014, p. 28) argues that one of the real obstacles to performance-based allocation is the persistence of incremental norms and behaviour. For example, Good (2011, p. 45) argues that the budgeting process in Canada is largely incremental. The two distinctions of the incremental method are that it is both incremental as a method of budget calculation and incremental as a process. According to Wildavsky, the incremental method of budget calculation focuses on small increments to an existing base. “Budgeting is incremental: the largest determining factor of the size and content of this year’s budget is last year’s budget. Most of the budget is a product of previous decisions” (Wildavsky 1964, p. 13). Incrementalism as a process describes the nature of the relationship between budget actors. “An incremental process is one in which the relationships between actors are regular over a period of years, and a non-incremental process is one in which this relationship is irregular. By regular we mean that similar patterns of interactions between the participants is followed from one year to the next.

By irregular we mean that the pattern of interactions is changed or broken at a point in time” (Dempster and Wildavsky, 1979, p. 375).

White (1994, p. 115) argues that, “incrementalism is necessary, and reforms like [Planning-Programming-Budgeting] PPB and [Zero Based Budgeting] ZBB are doomed to failure, because the burden of calculation necessary to make a government’s budget is enormous”. The theory of incrementalism remains a widely accepted explanation of the public budgeting process where it is argued that final budget allocations are a combination of past and present political bargaining and agreement (Willoughby, 2002, p. 104).

The use of performance information in budgeting also cannot be separated from the challenges and problems of implementing budget reforms. From the literature of policy implementation studies, Barrett (2004, p. 252) has argued that there are four key factors that contribute to the failure of implementation. Firstly, a lack of clear policy objectives leaves room for differential interpretation and discretion in action. Secondly, various actors and agencies involved in the implementation can create problems of communication and co-ordination between the ‘links in the chain’. Thirdly, inter-and intra-organisational values and interest differences between actors and agencies hinder implementation. Fourthly, the relative autonomy of implementing agencies limits administrative control. Most OECD countries have some common challenges that include problems with performance measurement and data integration, facing resistance from public servants of many levels within the Ministry of Finance (as central budget authorities) and line ministries, and lacking institutional capacity in the Ministry of Finance and line ministries officials (OECD, 2007).

Although the impacts of performance-based budgeting in various countries seem rather disappointing with regard to the linking of performance with budget allocations, the arguments for making this link remain convincing (Robinson 2007, cited in Schick, 2014, p. 8) and it is understandable that most countries, including Indonesia, would aim to reform their budget processes in this direction.

The evolution of performance-based budgeting implementation in Indonesia began with the Asian financial crisis of 1997 and the political transition in the country that commenced in 1998. Indonesia labels its budgeting approach “Performance-Based Budgeting” and this approach is used to justify the relationship between funds allocated and performance of programmes or activities (Government of Indonesia (GoI), 2010a). The government has indicated that the implementation of PBB is intended to improve the quality of public services, to improve the effectiveness and the accountability of ministries/agencies, and to combat corruption (GoI, 2010b).

Many studies have been undertaken to examine PBB reform in various countries, but studies that explore the use in practice of performance information within the budget process are scarce (Raudla, 2012, p. 1000). This thesis addresses this deficiency within the Indonesian central government context by examining the use of performance information by government officials/practitioners in the planning and budgeting process. It examines the extent and manner to which government officials use performance information in budgetary decision-making and in the different stages of the budgeting process. Furthermore, the thesis examines how different government practitioners from line ministries/agencies use performance information in the planning and budgeting discussions within their organisations. In addition, it

investigates the use of performance information for managerial purposes within line ministries/agencies.

## **1.2 Research Objectives and Research Questions**

Drawing on literature that examines the actual use of performance information in the budget process, the thesis is mindful of past findings that show performance information rarely has a direct impact on budget allocations. Countries that are in the early stages of developing performance-based budgeting tend to use performance information for background information only (Curristine, 2005, p. 102). The thesis has commenced from a cautious position about the influence of incremental budgeting practices, despite Indonesia's avowed commitment to implementing performance-based budgeting.

As well as being the author's home country, Indonesia was considered a suitable country for such a study because there has been limited research on performance-based budgeting there. A huge effort has been made there to reform the planning and budgeting process over the past eighteen years and Indonesia is an especially interesting case to study because there are two key central ministries, namely the Ministry of Planning (Bappenas) and the Ministry of Finance, each playing an important role in the planning and budgeting process (Blondal, Hawkesworth, Choi, 2009). Moreover, as Blondal, Hawkesworth, Choi, et al. (2009, p. 12) have argued that the Indonesian planning system is different from a typical central planning model. In most OECD countries, the planning function is integrated in a single budget office, rather than separately as in Indonesia. Conducting the research in Indonesia, this opened up the possibility of studying the interaction in the budget making process

between the Ministry of Planning and the Ministry of Finance, as well as their respective interactions with line ministries/agencies in allocating budgets and reviewing the various work plans and budget documents (RKAKLs).

As elsewhere, Indonesia is likely to have inherited incremental budgeting practices from its past. In the 1970s, Caiden and Wildavsky conducted research into planning and budgeting in various developing countries in Africa, South America, and Asia, including Indonesia, and they found much commonality of viewpoints among budget officials from such countries, and particularly that: “the budget of the next year will replicate to an extraordinary degree the budget of this year, which was extremely like last year’s budget” (Caiden and Wildavsky, 1974, pp. 105-106). Caiden (1985, p. 27) argued that budgeting methods in ASEAN countries often encouraged incrementalism and stable outcomes. She found that in Singapore, Malaysia, and Indonesia, the policy from the government was primarily to satisfy the needs of the operating budget. Blondal, Hawkesworth, Choi, et al. (2009, p. 13) found that there were budget rigidities in the Indonesian budget formulation system that limited flexibility. Such budget rigidities could perhaps have served to maintain the practice of incremental budgeting in Indonesia to the present time, and despite the ambition to implement performance-based budgeting.

This thesis explores the implementation of performance-based budgeting in Indonesia during the period of 2011-2014 with the following objectives:

- To examine the impact of performance information on budget allocations.
- To explore factors affecting budget allocations.

- To explore the extent of incremental budgeting practices, despite the fact that performance-based budgeting has been introduced.
- To explore the use of performance information by government officials/practitioners in the Ministry of Planning, the Ministry of Finance, and line ministries/agencies in the various stages of the planning and budgeting process.
- To explore the use of performance information by government practitioners in line ministries/agencies for managerial purposes.
- To explore the problems encountered by government officials/practitioners in the Ministry of Planning, the Ministry of Finance, and line ministries/agencies in implementing performance-based budgeting.

These research objectives are addressed through the following four research questions:

- (1) Is there evidence that performance results/scores are used in determining budget allocations?
- (2) Is there evidence that incremental budgeting practices still exist in the planning and budgeting process?
- (3) How, in practice, do government practitioners use performance information in the planning and budgeting process?
- (4) What challenges have government practitioners encountered in seeking to implement performance-based budgeting?

### **1.3 Research Methods**

The research for this thesis employed a combination of qualitative and quantitative analysis with three different data collection methods. This study involved interviews

with 53 government officials from ten institutions/ministries/agencies – with interviewees having been chosen to represent four different budget actors in the planning and budgeting process: the Ministry of Planning, the Ministry of Finance, line ministries/agencies and the Parliament. It also involved a questionnaire that was distributed to 79 line ministries/agencies and the collection and analysis of performance and budget data for 435 programmes and 86 line ministries/agencies for the period of 2011 to 2014 from the Directorate General of Budget, the Ministry of Finance. In addition, a range of governmental publications and other documents were also analysed.

The qualitative data were combined, analysed, and triangulated to explore the use of performance information in the various activities in the planning and budgeting process, to identify factors affecting budget decisions, to reveal the presence of incremental budgeting practices, and to reveal challenges encountered by government officials/practitioners in implementing performance-based budgeting. The results of questionnaire have been analysed using descriptive statistics and the budget and performance data were analysed in order to examine the relationship between performance scores and budget allocations and to explore the extent of incrementalism in the planning and budgeting process.

#### **1.4 Structure of the Thesis**

The thesis is organised into eight chapters. This first chapter has provided an introduction to the study, to its objectives and to the key research questions.

**Chapter 2** reviews the literature that is relevant to an analysis of performance-based budgeting in Indonesia. The chapter begins with a critical overview of performance budgeting and other budgeting techniques. It then continues with a brief overview of the range of theories of public budgeting that have thus far been proffered. It then explores problems faced by public budgeting with regard to funding decisions. Because incremental budgeting has been found to be the dominant established form of budgeting around the world, the chapter also specifically reviews the incremental budgeting literature, although the largest part of the chapter focuses on performance-based budgeting and the potential use of performance information in this context. It then discusses the benefits and limitations of performance-based budgeting. Because the use of performance information in the budgeting process is very much associated with the performance-based budgeting reform, the chapter also discusses the reform process, including the problems of implementing performance-based budgeting. The chapter concludes with a discussion of analytical frameworks or theories that can be useful for this study.

**Chapter 3** focuses on the evolution of performance-based budgeting implementation in Indonesia, describing these arrangements in detail and providing the necessary background for the empirical research reported in Chapters 5, 6, and 7. The chapter starts by discussing the context of public management reforms in Indonesia that began to be implemented after the Asian financial crisis of 1997. The key laws and regulations that have guided the planning and budgeting process in Indonesia and that have affected the implementation of performance-based budgeting are also discussed. The significant phases of the reforms are then described. The features of Indonesian performance-based budgeting, including the introduction of performance



measurement and evaluation (RKAKL performance scores), are also presented. The chapter then continues with a discussion of the four key actors involved in the planning and budgeting process, and the three budgetary decision stages of the Indonesian process. The chapter concludes with an identification of the potential uses of performance information in the planning and budgeting process.

In **Chapter 4**, an overview is presented of the research design underpinning the thesis. It begins with a discussion of the choice of a case study design for this study. The chapter then describes the use of a combination of quantitative and qualitative methods as the research methods for the study. As the research has involved interviewing and surveying a large sample of Indonesian central government officials or practitioners with different ranks and roles in the planning and budgeting process, the chapter explains the two-stage sampling procedure that was used to select government officials/practitioners for interview from ten government institutions/ministries/agencies. The chapter then describes in more detail the three different data collection procedures employed: collecting performance scores and budget data; conducting interviews; and administering the questionnaire. Next the chapter discusses the methods of analysis used in examining and interpreting the data. In addition, the chapter concludes with a discussion of the reflexivity of the research.

Chapters 5, 6, and 7 present the findings of the research.

**Chapter 5** reports the findings that relate to research questions one and two. Research Question Number One asking ‘Is there evidence that performance results/scores are used in determining budget allocations?’ while Research Question Number Two

asked ‘Is there evidence that incremental budgeting practices still exist in the planning and budgeting process?’

The chapter begins with the discussion of the importance of the indicative budget ceilings stage compared with the other two budgetary decision stages, namely: the budget ceilings and the budget allocations. Then, the discussion continues by exploring the use of performance information by government officials from the Ministry of Planning and the Directorate General of Budget in the Ministry of Finance in preparing the indicative budget ceilings. The third section of the chapter discusses factors affecting budget allocations. The discussion continues by presenting the results of the statistical analysis of the relationship between performance scores and budget allocations and the existence of incremental budgeting practice.

**Chapter 6** focuses on the findings related to Research Question Number Three ‘How, in practice, do government practitioners use performance information in the Indonesian planning and budgeting process?’ The extent of the use of performance information is a key issue that arises from the experience of performance budgeting in other countries. The chapter is divided into three sections - each section presenting findings on the use of performance information from four different Indonesian institutions involved in the planning and budgeting process. The first section presents findings on how government practitioners from the Ministry of Planning and the Directorate General of Budget within the Ministry of Finance use performance information in the planning and budgeting process. The second section presents findings on the use of performance information by Members of Parliament. The third section reports findings on how government practitioners from line

ministries/agencies use performance information in the planning and budgeting process and for other managerial purposes, such as for accountability, mobilisation, and improvement. Although each section focuses on reporting the use of performance information by the respective institutions, the views of practitioners from other institutions, were also gathered, are similarly presented and compared.

**Chapter 7** then reports the findings relating to the Research Question Number Four, ‘What challenges have government practitioners encountered in seeking to implement performance-based budgeting?’ The findings here are organised into three major themes. The first section reports the findings relating to the problems with the measurement system. The second section reports findings relating to support for managing performance in all institutions involved in the implementation of performance-based budgeting while the third section reports findings relating to personnel and the technical capacity to implement performance-based budgeting.

Finally, in **Chapter 8**, the main conclusions from the research are summarised, and the contribution to knowledge that they represent as a whole is considered. The chapter finishes by proffering four recommendations for policy and practice in Indonesia for the further development of performance-based budgeting.

## **Chapter 2 - Literature Review**

### **2.1 Introduction**

This chapter reviews the literature that is relevant to an analysis of performance-based budgeting in Indonesia. The review begins with an overview of the range of existing theories of public budgeting. It then explores problems faced by public budgeting with regard to funding decisions. Although this thesis is focussed on performance-based budgeting, it devotes considerable space to examining the incremental budgeting literature, as incremental budgeting can still be considered to be the dominant established form of budgeting around the world.

The largest part of the chapter focuses on performance-based budgeting and the potential use of performance information in performance-based budgeting. It then discusses the benefits and limitations of performance-based budgeting. It also discusses issues associated with the performance-based budgeting reforms and the problems of implementing performance-based budgeting. It concludes with a discussion of analytical frameworks or theories that can be useful for this study. The chapter begins with a critical overview of performance budgeting and other budgeting techniques.

## **2.2 Overview of the Literature on Performance Budgeting and other Budgeting Techniques**

This section provides an overview of the literature on performance budgeting set in the context of the development of budgeting theory and practice over the last three-quarters of a century.

We can distinguish broadly between the economists' comprehensive rational approach to budgeting and a less ambitious perspective closer in touch with actual practice best exemplified by incremental budgeting theories.

The economists' comprehensive approach to budgeting aims at the maximisation of social welfare by allocating scarce resources between competing ends. Vernon Key called this 'the basic budgeting problem (on the expenditure side), namely: On what basis shall it be decided to allocate x dollars to activity A instead of activity B?' (Key, 1940, p.1138) Key notes that the basic conceptual problem was solved long ago,, citing Pigou (1928) but points out that the clear principles do not take one very far in practice because of the information required.

As regards the distribution, as distinct from the aggregate cost, of optional government expenditure, it is clear that, just as an individual will get more satisfaction out of his income by maintaining a certain balance between different sorts of expenditure, so also will a community through its government. The principle of balance in both cases is provided by the postulate that resources should be so distributed among different uses that the marginal return on satisfaction is the same for all of them...Expenditure should be distributed between battleships and poor relief in such wise that the last

shilling devoted to each of them yields the same real return (Pigou, 1928, p.50) cited in (Key, 1940).

In the methodologically individualistic approach of neoclassical economics, equalising “marginal return on satisfaction” or marginal utility” per unit of the currency across public spending and also the private sector would maximise total utility. If the distribution of utility between individuals rather than just the total is also to be taken into account that can be expressed in the form of a Bergsonian social welfare function, where social welfare  $W$  to be maximised is some function of individual utilities  $U$  of the  $S$  members of society.  $W=W(U_1, U_2, ..U_S)$ , (Bergson, 1938, Samuelson, 1947, Brown and Jackson, 2009, pp. 87-89, Mueller, 2003, pp. 563-5).

The ultimate standard of *performance* from budgeting in this framework would be the maximisation of social welfare achieved by considering what utilities could result from alternative budget decisions. In practice, in terms of real budget processes

“the doctrine of marginal utility, developed most finely in the analysis of the market economy, has a ring of unreality when applied to public expenditure...

For the working budget official, the implications of the discussion rest primarily on a point of view in the consideration of estimates in terms of alternatives – decisions which are always made, but not always consciously”.

(Key, 1940, p. 1143-44).

How could this comprehensive rational approach, as suggested by welfare economics with its overwhelming informational requirements be translated into budgeting practice? As discussed below, initial attempts to do this did not get very far, but Lewis (1952, p. 49) suggested that administrative officials be required to present not only a

basic budget request, but also alternatives which “might represent respectively, 80, 90, 110 and 120 per cent of that amount.” Such proposals would facilitate comparisons at the margin. Smithies (1955, cited in Schick, 1971, pp.33-34) argued that “expenditure proposals should be considered in the light of the objectives they are intended to further, and in general final expenditure decisions should not be made until all claims on the budget can be considered.” Taking these ideas forward would require formidable tasks of information processing but possibilities for undertaking such tasks were greatly expanded by the continually falling costs of information technology – a process that has continued to this day.

These early rational economics ideas led to the inception of program budgeting and performance budgeting. What is the difference between the two? According to Schick programme budgeting’s core idea

“is that expenditures should be grouped and decided in terms of governmental objectives, not according to the organisations spending the money. All activities contributing to the same objective should be placed in the same programme, regardless of the organisational entity to which they are assigned” (Schick, 2007, p. 115).

Program budgeting is thus to be distinguished from line-item budgeting which focusses on control over a listing of line-items of expenditure:

“such as salary, overtime pay, postage, gasoline, office supplies and so forth. These objects of expenditure could be collapsed into broad categories such as personnel, operating and capital expenses (Tyer and Willand , 1997, pp. 194-195).

In an early discussion of terminology, Schick argues that

“throughout the performance budgeting era, there was persistent confusion over the meaning of performance budgeting and program budgeting and their relation to each other”.(Schick, 1971, p. 8).

Schick associates program budgeting with a consideration of “objectives and benefits” of expenditure programs whereas he associates performance budgeting with the Hoover Commission’s view of ‘the work or service to be accomplished as “the all-important thing in budgeting”’ (Schick, 1971, p. 8).

As discussed below, program budgeting, in the form of the Planning, Programming, and Budgeting System (PPBS) had failed by 1971, but since then “new performance budgeting” has become established worldwide (Mikesell, 1995, Diamond, 2003).

Overall, the early attempts to introduce ideas of comprehensive rational resource allocation from economics and data processing (Schick, 1971, pp. 32-39) did not find great favour with administrators and politicians actually practising budgeting. These ideas were seen as over-ambitious and unrealistic by those who pointed out that the reality of budgeting practice was characterised by an incremental process. The classic statement of the case that budgeting is an incremental process is to be found in Wildavsky (1964).

Wildavsky argues that,

The largest determining factor of the size and content of this year’s budget is last year’s budget. Most of the budget is the product of previous year’s decisions” (Wildavsky, 1964, p.13).



In developing his argument, Wildavsky notes the immense complexity of budgetary decision making, and the difficulty of making, “comparisons among different programs that have different values for different people” (Wildavsky, 1964, p. 10). In the face of such complexity, Wildavsky argues that those involved in the process inevitably need to simplify and such simplification takes the form of “satisficing” rather than a process of overall optimisation (Simon, 1957).

These ideas, developed by Wildavsky and others from the 1960s to the late 1980s (Lindblom, 1959, Davis et al, 1966, Sharkansky and Turnbull, 1969, Danziger, 1976, Cowart et al, 1975) “would remain the dominant paradigm in budgeting theory throughout the rest of the century (Kelly, 2005, p. 98). Since their development, incremental budgeting models have stood in opposition to the classic performance budgeting models - at that time labelled “comprehensive-rational” models (Robinson and Brumby, 2005, p. 24).

Incremental budgeting theory was relatively modest in its approach, aiming to describe budgeting in terms of a few simple concepts such as the base, the increment and fair shares (Good, 2011, p. 45). The approach could be seen as the antithesis of performance budgeting (Robinson and Brumby, 2005, p. 24).

Andrew and Hill (2003, p. 145) for example, argue that:

Organisational systems...may measure outputs or outcomes but cannot use such information within an established incremental budgeting process, because the emphasis on process has undermined the development of a decision-making process in which performance information could be considered.

A strong form of incremental budgeting implies that budget allocations are so strongly determined by past year allocations so that the budget is extremely inflexible. As performance budgeting is meant to improve spending prioritisation, it can be seen to be largely incompatible with strong incrementalism (Robinson and Brumby, 2005, p. 24).

We now consider in more detail public budgeting and approaches to budgetary decision-making.

### **2.3 Public Budgeting and Approaches on Budgetary Decision-Making**

The Oxford Dictionary (2012) defines ‘budget’ in at least two ways: (1) “the amount of money needed or available for a purpose”; (2) “a regular estimate of national income and spending put forward by a finance minister”. It is common that different countries have different understandings of the term. The term ‘budget’ can be a plan of intent or government statement. In some countries it refers to a set of statements attached to a formal appropriation bill. In other countries, the budget is a proposed law that has a legal status for all its components once approved like other laws (Wanna, 2010, p. 4). The Indonesian Government (GoI, 2003) defines ‘budget’ as the annual financial plan of the government authorized by the Parliament. Schick (2004, p. 95) explains that budgeting is a process for allocating resources among competing demands for public money. Budgeting is also a process for systematically relating the expenditures of funds to the accomplishment of intended objectives (Schick, 1966, p. 244).

Public or government budgets are different from those of the private sector with regard to resource availability and profit motive (Lee, Johnson, and Joyce, 2013).

Private sector organisations cannot spend more money or resources than they are able to obtain through sales, borrowing or donations (Willoughby, 2014, p. 8). In contrast, government has the power through compulsory taxation and regulation to determine how much of the nation's total resources are to be used for public purposes (Lee, Johnson, and Joyce, 2013, p. 3). However, whereas the government budgeting process results in legislative appropriations that set the legal limits on spending for a future fiscal year or years, private budgets are financial plans that are open to change more frequently, and certainly can be changed more quickly, than government budgets (Willoughby, 2014, p. 9). Regarding the profit motive, the private sector aims to generate profit in its business (Willoughby, 2014, p. 9), whereas governments provide goods and services for public that do not necessarily produce profits (Lee, Johnson, and Joyce, 2013, p. 3). Rubin (2010) explains the major distinction between government budgets and private budgets is that government budgets are public or open to scrutiny, they engage public money, and involve many stakeholders, such as government officials, politicians, taxpayers, the media, clients, and citizens generally and numerous institutions such as budget laws, rules, protocols, and processes.

Decisions about budgets are seldom made in a single office by a single person and budget processes involve complex institutional arrangements and often the decision making is made collectively (Folscher, 2007, p. 111). Budgetary decision-making includes the action of executive officials, legislative officials, other interest groups or organisations, and other stakeholders (Lee, Johnson, and Joyce, 2013, pp. 16-17). There is no general consensus among authors regarding the classification of perspectives, approach, or theory developed with regard to budgetary decision-making. For example, Kraan (1996, pp. 1-8) categorised theory on budgetary decision

making into four perspectives: the normative perspective, political systems theory, the organisational process perspective, and public choice theory. Lee, Johnson, and Joyce (2013, pp. 18-21) divided theories of decision making into three basic approaches: pure rationality, incrementalism, and limited rationality. Reddick (2003, pp. 257-262) divided internal change approaches in budgeting into three approaches: budgetary incrementalism, rational or scientific budgeting, and garbage-can budgeting. Because this study focuses on examining the implementation of performance-based budgeting and the extent of incremental budgeting practices in Indonesia, the next sections provide first a detailed review of incremental budgeting theory and research and then a detailed review of performance budgeting theory and research.

## **2.4. Incremental Budgeting**

The first part of this section reviews the literature about the various concepts of incremental budgeting. The second part of the section reviews the variety of methods used to study the incremental budgeting.

### **2.4.1 Concepts of Incremental Budgeting**

The concept of incrementalism is easy to hold but it is difficult to understand (Good, 2011, p. 41). During the 1950s and early 1960s, Charles Lindblom, Aaron Wildavsky, and other authors developed theories to explain decision-making process in government and budgeting (Berry, 1990, p.167). In general, Lindblom (1959, pp. 41-42) described incrementalism is a 'successive limited comparisons' or a 'branch method'. He contrasted the branch method with a 'rational-comprehensive' or a 'root method'. The branch method is decision-making process of 'building out from the current situation, step-by-step and by small degrees' (Lindblom, 1959, p. 42). In contrast, the root method is decision-making process, 'starting from fundamentals

anew each time, building on the past only as experience is embodied in a theory, and always prepared to start completely from the ground up' (Lindblom, 1959, p. 42). The characteristics of the two methods as explained by Lindblom can be seen in Table 2.1.

**Table 2.1 The Characteristics of the Root Method and the Branch Method**

Rational-comprehensive (Root)	Successive Limited Comparison (Branch)
<ol style="list-style-type: none"> <li>1. Clarification of values or objectives distinct from and usually prerequisites to empirical analysis of alternatives policies.</li> <li>2. Policy-formulation is therefore approached through means-end analysis: First the ends are isolated; the means to achieve them are sought.</li> <li>3. The test of a “good” policy is that it can be shown to the most appropriate means to be desired ends.</li> <li>4. Analysis is comprehensive; every important relevant factor is taken into account.</li> <li>5. Theory is often heavily relied upon.</li> </ol>	<ol style="list-style-type: none"> <li>1. Selection of value goals and empirical analysis of the need action are not distinct from one another but are closely intertwined.</li> <li>2. Since means and ends are not distinct, means-end analysis is often inappropriate or limited.</li> <li>3. The test of a “good” policy is typically that various analysts find themselves directly agreeing on a policy (without their agreeing that it is the most appropriate means to an agreed objective).</li> <li>4. Analysis is drastically limited: <ol style="list-style-type: none"> <li>a. Important possible outcomes are neglected.</li> <li>b. Important alternative potential policies are neglected.</li> <li>c. Important affected values are neglected.</li> </ol> </li> <li>5. A succession of comparisons greatly reduces or eliminates reliance on theory.</li> </ol>

(Lindblom, 1959, p. 81)

The concept of incrementalism then travelled from general decision-making to the analysis of budget making introduced by Aaron Wildavsky in 1964 (Good, 2001, p. 43). According to Wildavsky, ‘Budgeting is complex, largely because of the complexity of modern life’ (Wildavsky, 1984, p. 8). In budgeting, members of

Parliament and budget officials from budget authorities, such as the Ministry of Planning or the Ministry of Finance, faced difficulty in deciding how much money should be given to various activities within a programme or how much money should be given to different programmes or different line ministries/agencies. Wildavsky argues that budget officials are human and have limited ability to predict, they only have limited time to think and decide, and they have limited ability to calculate and determine budgets (Wildavsky, 1984, p 10). Therefore according to Wildavsky, budget officials develop mechanisms, though imperfect, that can help them making decisions in a complicated world (1984, p. 11). Incremental budgeting aids budget officials in making budgetary decisions.

Wildavsky explained strategies used by budget officials in dealing with a problem of the complexity in budgeting by making budgeting ‘experiential’, ‘simplified’, and “satisficing”. According to him, budgeting is experiential. This means that budget officials are to make only the roughest guesses in determining budgets for the first years. Afterward they will use their experience in making budgets for the following years. His idea that budgeting is simplified indicates that in budgeting process, budget officials are to focus on simpler items/activities in a programme which can be used as indicators of more complicated items. Budgeting officials “satisfice” in making budget decisions. They do not try to make the best decisions. As long as the line ministries/agencies that receive the budgets are also satisfied enough has been done (Wildavsky, 1984, pp. 11-13).

As Berry (1990) argues that there are various meanings of incrementalism. The next paragraphs discuss several conceptions of incremental budgeting.

### Base and Increment

The base and the increment are probably the most basic and continuing concepts in budgeting and used by most countries as components in the budget system (Good, 2011, p. 45). The base is “commonly held expectations among participants in budgeting that programmes will be carried out at close to the going level of expenditures” (Davis, Dempster, and Wildavsky, 1966, p. 530). Wildavsky (1984, p. 17) stated that “the word “base” is part of common jargon of budget officials, meaning that they would not expect wide fluctuations from year to year rather than additions to or subtractions from relatively stable point.”

According to Wildavsky “budgeting is incremental. The largest determining factor of the size and content of this year’s budget is last year’s budget. Most of the budget is a product of previous decisions” (Wildavsky, 1984, p. 13). Moreover, according to Davis, Dempster, and Wildavsky (1966, p. 530), “incremental calculations proceed from an existing base”.

The budget base is of key importance in incremental budgeting. According to Wildavsky (1984, p. 15) the incremental approach works as follows:

Budgeting is incremental, not comprehensive. The beginning of wisdom about an agency budget is that it is almost never actively reviewed as a whole every year in the sense of considering the value of all existing programmes as compared to all possible alternatives. Instead, it is based on last year’s budget with special attention given to a narrow range of increases or decreases. Thus men who make the budget are concerned with small increments to an existing

base. Their attention is focused on a small number of items over which the budget is fought.

This is what Berry called (1990, p. 170) lack of attention to the base. Robinson (2014b, p. 6) argues a widespread problem in the budget preparation process is that the central budget office only focuses on the consideration of new budget proposals, with little or no review of baseline expenditure.

### Fair Share

The concept of base is also related to the concept of “fair share”. Fair share reflects the expectation of a ministry/agency to receive its budget in comparison to other ministries/agencies (Wildavsky, 1984, p. 17). “Fair share” means not only the base an ministry/agency has established but also the expectation that it will receive some proportion of funds, if any, which are to be increased or decreased below the base of the various line ministries/agencies. “Fair share” reflects a convergence of expectations on roughly how much the agency is to receive in comparison to others. (Wildavsky, 1984, p. 17).

### Negotiation Among Budget Actors with Narrow Roles.

Negotiations over the budget are assumed to be carried by different actors in the budgeting process that have distinct roles, and the result of bargaining among these actors leads to incrementalism (Berry, 1990, p. 171). Wildavsky (1984) argues that government practitioners from line ministries/agencies are expected to try to secure the largest budgets they can, while the central budget office try to cut their requests. Budgets are made in fragments and decided by many actors in specialised roles. Therefore, the budget decisions are made in narrow orientations: historical, repetitive,



and sequential. These orientations reduce the information, time, and analytical abilities required for public budgeting and make the budgets incremental (Wildavsky, 1984).

#### Regularity of Relationships.

The incremental approach as a process describes the nature of the relationship among budget actors in budgetary process (Good, 2011, p. 44). As Dempster and Wildavsky (1979, p. 375) explain “an incremental process is one in which the relationships between actors are regular over a period of years, and non-incremental process is one in which this relationship is irregular. By regular we mean that similar patterns of interactions between the participants are followed one year to the next. By irregular we mean that pattern of interactions is changed or broken at a point in time.”

Ibrahim and Proctor (1992, pp. 15-16) summarised incremental budgeting with the following concepts: complexity, roles, constraints, aids to calculation, process, and dominant inference patterns. First, complexity is the most serious constraint in policy making so that decision making has to be simplified. Second, there are three major participants in the budget process with different roles: ministries/agencies try to expand their budget; the budget committee in the parliament tries to cut the ministry's request; and the central budget office acts as adviser. Third, the budget actors have human and political constraints. Human constraints include limited time and ability to calculate, limited ability to undertake systematic analysis, limited ability to predict the consequences of change, and limited ability to specify goals. Political constraints limit the ability to capture opportunities or remove disabilities. Fourth, as far as aids to calculation concerned, the budget process is perceived as experiential, simplified,

satisficing, and incremental. Fifth, the budget process can be described as specialised, historical, non-programmatic, and sequential. Sixth, government policy develops over time. Policy this year is only slightly different from policy last year. Changes are the results of a process of interaction and compromise among many individuals, budget officials and politicians.

#### **2.4.2 Methods Used to Study the Incremental Budgeting**

This section presents two basic methods used in the previous literature to study incremental budgeting. We use these models in examining incremental budgeting in Indonesia.

##### The Magnitude of Change Model

This model calculates the percentage change between a budget allocation in one year and a budget allocation in the previous year for each year in a certain period. The model then examines characteristics of the frequency distribution of the percentage change (Berry, 1990, p. 184). Danziger (1976, p. 338) describes an incremental budget as occurring if the percentage changes are between 5% and 15%. Bailey and Connor (1975) use the criteria of 0-10% change to define incremental budget, 11-30% is intermediate, and more than 31% non-incremental. Wildavsky determines the percentage changes of budget allocations as incremental is, in a majority cases, the budget allocation varies within a range of  $\pm 10\%$  of the previous year's allocation (LeLoup, 1978).

### The Stability/Incremental Trend Model

The stability model (Ibrahim and Proctor, 1992) or incremental trend model (Danziger, 1976) focuses on evaluating the pattern of budget allocations over time using a linear regression. To assess whether the budgetary process of each ministry/agency is incremental, the model uses the statistical fit of the data to the regression line, the  $R^2$  value. A low  $R^2$  value indicates a low degree of stability of budget allocations. In contrast, a high  $R^2$  indicates a high level of allocations stability (Ibrahim and Proctor, 1992, p. 21). In a bivariate model an equivalent procedure which we use in this research is to examine the Pearson correlation coefficient  $r$  which is the square root of  $R^2$ .

#### **2.4.3. Why Incremental Budgeting Lasts**

There are arguments about the failure of incremental approach. For example, Rubin (1988) argues that the incremental approach was both too global and too narrow. According to Rubin (1988, p. 3):

the incremental approach was too global because it was derived from perceived characteristics of human nature. It was too narrow because it focused only on the part of the budget process annually and on the agency's request, executive review, and congressional approval. It ignored the differences between budgeting at different levels of hierarchy, and the effects of environment on budgetary processes.

Robinson and Brumby (2005, p. 26) argue that the literature on incremental budgeting had a methodological problem. They argue that the literature focuses on budget allocations at a broad aggregated level of functions of government because there was

a problem with data availability of using a less aggregated level. Potentially, budget allocations are always incremental at a broad aggregated level.

Despite some criticisms about the relevance of a too incremental approach in the budgeting processes, other scholars argue that the incremental approach is still important in public budgeting. White (1994: 115) argues as follows:

incrementalism is necessary, and reforms like PPB and ZBB are doomed to failure, because the burden of calculation necessary to make a government's budget is enormous. PPB assumes an ability to compare programmes and agencies in terms of their very different values and outputs. Even if it were rational, Congress would not allow PPB to displace its own policy-making processes. But PPB's claim to "rationality" is vitiated by the difficulty of measuring any programme's output, graver difficulty of comparing diverse programmes' diverse outputs, and the impossibility of measuring interpersonal utilities of different items.

Although Wildavsky (1978, p. 508) accepted every criticism of incremental budgeting: that it is incremental, that it does fragment decisions, that it is strongly determined by past decisions, and that it is not concerned about objectives, he argued that incremental budgeting has the benefit of its weaknesses. Because it is not comprehensive, incremental budgeting makes calculations easy. Instead of depending on the future that cannot be known, the past decision provides a strong base to calculate the budget needs. Alternatives that might cause conflict are fragmented so that budget officials do not face all problems at one time. Because incremental budgeting is unconcerned or neutral about objectives, budget officials can change

objectives without affecting the budget. Wildavsky (1978, p. 508) concluded that incremental budgeting survives because “it is simpler, easier, more controllable, more flexible than modern budgeting like PPBS and ZBB.”

Schick (2014, p. 28) argues that one of the real problems to performance-based budget decisions, besides budget rigidities and political pressure, is the persistence of incremental norms and behaviour. Budgeting is inherently incremental (Schick, 2009, p. 356). Budgeting in many OECD member countries, “has settled into a process of snipping existing programmes at the margins to make room for targeted enhancements” (Schick, 2009, p. 350). At times when limited resources are available to finance all demands, governments may also continue to make incremental policy adjustments to finance marginal reallocations from lower to higher priorities (Schick, 2009, p. 356). He goes on to argue that anyone who has been involved in budgeting knows that a process of allocating resources among competing demands for public money is not a fair competition. Old programmes/activities on the budget have an advantage over new programmes/activities. The budgeting decisions are “anchored in the past, varying usually only in small increments from one year to the next” (Schick, 2009, p. 356).

Budgeting continues to be incremental because public expenditures are sticky, meaning that public expenditures, “do not readily respond to changes in political conditions or national priorities” (Schick, 2009, p. 435). Schick explains that a decision to allocate a budget for a programme in one year usually is a decision to provide budget in following years. Incremental budgeting protects old programmes/activities, stabilises government, gives citizens clear expectation on the continuity of the services, and reduces conflict (Schick, 2009, p. 436).

Although it varies within and between systems, White (1994) hypothesizes that incremental budgeting should apply under five conditions. Firstly, incremental policies more likely to occur among governments that have separation of power systems. An absolute power government does not need incremental policies. It can allow large budget changes. Secondly, incremental budgeting tends to occur when governments have abundant resources so that there is no reason for them to think about the base. If governments have financial hardship, they would pay attention to the base. Thirdly, incremental budgeting is more likely to happen during a shorter budget cycles. Budget officials do not have enough time to learn more about programmes in question and change their opinions. Fourthly, the fair share concept in incremental budgeting is more likely to occur if there is only one pot of money or one revenue source to all expenditures. If there is a type of expenditure that has a special revenue source then the fair share is unlikely to occur. Fifthly, the growth of entitlements makes more budgeting more incremental. An entitlement is a programme as a right and it is difficult to be changed.

## **2.5 Rational Budgeting and Performance Budgeting**

We now return in more detail to “rational” budgeting and performance budgeting. Rational is placed in inverted commas here because this usage of the term rational implicitly ignores the enormous opportunity costs of working out the full implications of every possible budgetary choice (Smith, 2003, p. 468).

This rational approach which involves setting targets and allocating resources to achieve them has produced different forms of rationalism (Kelly and Rivenbark, 2008, pp. 457-458). The varying approaches of performance budgeting in the USA

started with the “performance budget” in 1949, the Planning, Programming, and Budgeting System (PPBS) in 1965, Management by Objectives (MBO) in 1973, and Zero Based Budgeting (ZBB) in 1977 (GAO, 1997). Each approach has different procedures for linking resources with results (GAO, 1997). We discuss these three early attempts to bring rationality to the budgeting process below.

Rational budgeting was a growing paradigm in the USA during the first half of the twentieth century. The Taft Commission (1912) outlined what the administrator of the budget needed to know with an early statement of the need to look at performance:

In order that he may think intelligently about the subject of his responsibility, he must have before him regularly statements which will reflect results in terms of quality and quantity; he must be able to measure quality and quantity of results by units of cost and units of efficiency (Taft Commission, 1912, p. 164).

Performance budgeting was first introduced in the Department of Agriculture in 1934 with a requirement to link inputs to outputs. The 1949 Hoover Commission promoted a performance budgeting approach (Diamond, 2003) arguing that,

“the whole budget should be refashioned by the adoption of a budget based upon functions, activities and projects: this we designate a ‘performance budget’” (Hoover, 1950, p. 8)

Diamond (2003, p. 4) notes that the Hoover Commission “”used the terms program budgeting and performance budgeting almost synonymously” The Hoover Commission “performance budget’ was aimed to change the input orientation in budget process to a focus on government functions, activities, costs, and

achievements. A performance budget was used to describe the expected outputs of a specific function or activity rather than to describe items of expenditure (GAO, 1997, p. 5). Such a budget places emphasis on government activities such as construction projects, training, or research rather than expenditures such as salaries, rent, or supplies.

The Planning, Programming, and Budgeting System) (PPBS) followed in the 1960s, designed by the Rand Corporation and initially implemented in the Department of Defense and then then extended to all agencies (Reddick, 2003, pp. 257-258, Van Nispen and Posseth, 2007). In this approach to budgeting, *planning* first identified objectives, then *programming* set out how achieving the objectives would be integrated into the hierarchy of political approvals and *budgeting* would translate the multi-year program into annual spending. (Diamond, 2003, p. 6). The intellectual framework was that of utility maximising in the neoclassical economics paradigm. In the view of one commentator PPBS represented

“the onslaught of a certain style of intellectualism upon public decision making. In general the style is that of economics, or a certain brand of economics, heavily flavoured with mathematics, and spiced with a bit of what is called management engineering or management science” (Mosher, 1969, p. 161).

The PPBS was put in place in 1965 with the assumption that various levels and types of performance could be arranged, measured, and examined to produce the best budgetary decisions. In principle, PPBS applied a decision-making framework to the executive branch budget preparation process by presenting and analysing options among long-term policy objectives and different ways of achieving them.



Performance was defined as agency outputs, with an agency's programme structure linking outputs to long-term objectives. The essential part of PPBS was the use of systems analysis and other analytical tools to measure and to understand government outputs, benefits, and costs (GAO, 1997, pp. 5-6).

Although initially successful in Defense, the PPBS failed elsewhere and by 1971 the requirement for agencies to carry out PPB had been withdrawn (Schick, 1973, p. 146). The reason it failed was that the approach it represented had little meaning or attraction for those actually involved in the administrative and political process of budgeting. Departments, "went through the motions and submitted the required documents" (Schick, 1973, 148) but it was too alien to those involved in budgeting for it to thrive. Kelly (2005, p. 105) noted that PPBS failed because it was impossible to quantify all available alternatives.

In 1973 Drucker's (1955) Management by Objectives (MBO) was initiated in government by President Nixon, to link agencies' stated objectives to their budget requests. MBO aimed to make agency managers responsible for achieving agreed-upon outputs and outcomes. Heads of agencies would be responsible for achieving presidential objectives and managers within an agency would be responsible for achieving objectives agreed by superiors as well as subordinates. Performance was primarily defined as agency outputs and processes, but there were also attempts to define performance as the results of government spending or outcomes (GAO, 1997, p. 6).

Zero-Base Budgeting (ZBB) was introduced in 1977 for an executive branch budget preparation process. The main focus of ZBB was on optimizing what could be achieved at alternative levels of spend. Agencies were expected to set priorities based on the programme results that could be achieved at alternative expenditure levels. One of the alternatives would be a budget cut. In developing budget proposals, these alternatives were to be ranked against each other sequentially from the lowest level units to the highest ones within an agency without reference to a past budgetary base. The idea of the ZBB was to induce examination of the budget base in contrast to incremental processes where the base largely escapes scrutiny (GAO, 1997, p. 6).

These past initiatives of rational budgeting generally failed to achieve their objectives. PPBS and ZBB failed because they attempted to develop performance plans and measures without the involvement of the legislative branch of government and the budget allocation processes. Therefore, there was no consensus between executive and legislative branches on what performance should be, how to measure it, or how to integrate performance information with budget allocation decisions (GAO, 1997, pp. 6-7).

In addition, it is argued that ZBB failed because of the enormous data and analysis requirements it imposed. Carrying forward the base of spending vastly simplifies the budgeting process in comparison with ZBB (White, 1994, p. 115). According to Wildavsky (1978, p. 505) ZBB assumes “there is no yesterday. Nothing is to be taken for granted. Everything at every period is subject to searching scrutiny. As a result, calculations become unmanageable”. ZBB involved too much paperwork for the relatively few discretionary budget items (Kelly (2005, p. 106). MBO was seen to

have failed because there was lack of consensus on the executives' policy priorities, and because, "the submission of objectives of any type...would be welcomed {as long as} no additional financial or legislative resources would be required" (Kelly, 2005, pp.101 and 106).

Although the history suggests that no single definition of performance budgeting incorporates the needs and interests of decision makers, these past initiatives contributed to the evolution of performance-based budgeting, (GAO, 1997, p. 7). Furthermore, Rubin (1990) noted that each budget reform has given new ideas and new techniques to be incorporated into budget processes. In the OECD countries, governments have been developing performance budgeting that includes performance information with the aim to be used in budget processes and resource allocation. Under the label of performance budgeting, a variety of terms and definitions are found in different countries such as budgeting for results, performance-based budgeting and performance funding (OECD, 2007, p. 20). Thus, it can be said that the key characteristic of all performance budgeting models is that they attempt to link resource allocation and results with the use of performance information.

The next sections develop the more recent discussion of performance based-budgeting that is relevant for this study.

## **2.6 Performance Based-Budgeting**

This section discusses the modern concept of performance-based budgeting, the potential uses of performance information, evidence of the use of performance

information, limitation of performance information, benefits of performance-based budgeting, and challenges in implementing performance-based budgeting.

### **2.6.1 The Concept of Performance-Based Budgeting**

The last two decades have witnessed a wave of enthusiasm for performance management and budgeting reforms both in industrial and developing countries (Shah and Shen, 2007, p. 137). Performance budgeting has been implemented in many nations in South and Central America, Europe, Australia, and Asia under new public management initiatives, frequently called “performance management” or “managing for results” (Berry, 2008, p. 285). In Asia, under the broader label of performance management initiatives, performance-based budgeting has been introduced in Japan, Malaysia, the Philippines, Singapore, South Korea, Thailand, and Indonesia over the space of 1998-2003 (Koike, 2013, p. 348). In the USA and UK, public sector performance initiatives can be traced back since 1949 and the 1960s respectively (Jackson, 2011, p. 14).

Although performance budgeting has been introduced and implemented around the world, there is no standard definition of modern performance-based budgeting. U.S. GAO (GAO, 1999, p. 4) refers performance budgeting as ‘the concept of linking performance information with the budget.’ Shah and Shen (2007, p. 143) defines performance budgeting as:

a system of budgeting that presents the purpose and objectives for which funds are required, the cost of programmes and associated activities for achieving those objectives, and the outputs to be produced or service to be rendered under each programme.

The OECD has defined performance budgeting as ‘a form of budgeting that relates funds allocated to measurable results’ (OECD, 2005). Robinson and Brumby (2005, p. 5) suggest that performance budgets are:

procedures or mechanisms to strengthen links between the funds provided to public entities and their outcomes and/or outputs through the use of formal performance information in resource allocation decision-making.

The Indonesian government specifies that performance-based budgeting is used to justify the relationship between funds allocated with outputs/outcomes of programmes/activities (GoI, 2010a). Melkers and Willoughby (2001, p. 55) suggests broader definition of performance-based budgeting:

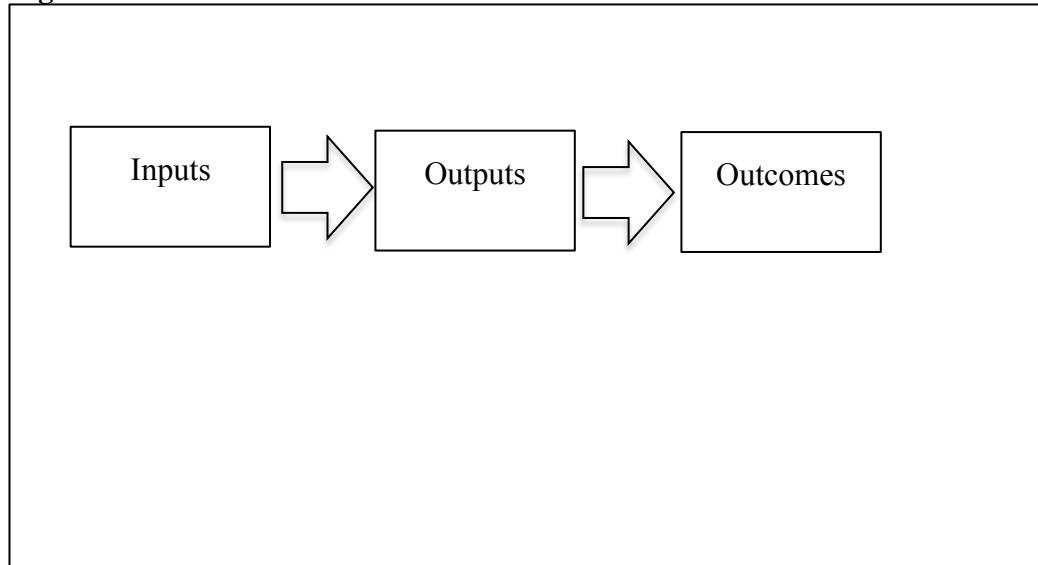
Performance-based budgeting is actually a more diverse set of requirements, blending various aspects of current public management trends, including outcome measurement, performance measurement systems, strategic planning and benchmarking.

In relation to performance information, Joyce (2011) argues that performance budgeting involves the production of appropriate performance information, and the presence of the information when budgeting decisions are made.

From the above, it is clear that the question of how performance is defined is fundamental to the design of performance budgeting. Jackson (2011, p.14) argues that, “There is no single answer to this question. It depends upon who is asked the question”. He goes on to list politicians, central government departments/agencies, auditors and regulators, public service managers, and interest/groups/user groups as amongst the stakeholders in defining performance.

One way of viewing the management of performance is through the lens of principal agent theory (Forrester, 2002, Jackson, 2011). In this model, the principals – ultimately the citizens seek to control the agents – public bureaus – to get what they see as the best use of resources. Principals are hindered in this quest by suffering from information asymmetry. They have inferior information to the agents who are closer to what is happening. However, the principal/agent structure in the public sector is likely to be far more complex than in the private sector (Propper and Wilson, 2003, 251). Jackson's discussion of how performance is defined can be seen in principal/agent terms as a problem of government agencies seeking to perform multiple tasks for multiple principals (Dixit, 2002, p. 709). Different principals may have different views on objectives and hence there may be a lack of agreement on what constitutes performance. In terms of Figure 2.1 performance can be seen as the maximisation of desired outcomes for a given input of resources. The question of what are the desired outcomes will be contested politically and organisationally. Politics is therefore a fundamental part of performance. "If politics is regarded in part as a conflict over whose preferences shall prevail in the determination of national policy, then the budget records the outcomes of this struggle" Wildavsky, 1964, p. 4).

**Figure 2.1: The Public Production Process**



(Adapted from Jackson, 2011)

The production model of Figure 2.1 indicates the various component aspects of performance. For a given financial budget, inputs can be obtained with maximum economy. Those inputs can then be subjected to processes to convert them into outputs with maximum efficiency. But it is important that outputs are those that lead to the desired outcomes, and this is usually seen as a question of maximising effectiveness. HM Treasury (2011, p. 15) gives an example of outputs and outcomes for an objective of increasing vocational training. Outputs could be human capital as a share of GDPO, and the proportion of the workforce with vocational training, and desired outcomes could be a socially optimal level of training and higher productivity for both trainees and co-workers.

In terms of Figure 2.1 the ultimate purpose of allocating budget to inputs is to achieve the best results in terms of the benefits of desired outcomes. Yet often the importance of measuring outcomes is matched by the difficulty of defining, observing and measuring them (Stevens et al, 2006, Stevens, 2005). In the private sector, the value

of outputs can be argued to be at least as great as market prices, but in the public sector outputs are not sold, and in the national accounts many outcomes are estimated by assuming that they are equal to the value of the inputs used. Clearly that latter approach is no basis for seeking to improve performance in generating desired outcomes from inputs (Stevens, 2005). Outcome measures are also likely to be gamed (Smith, 1995, Bevan and Hood, 2006) and are often co-produced by combining public sector outputs with inputs from citizens (Bovaird, 2007, Jackson, 2011). Where performance measures have been collected, there is also the major problem of aggregating them in a meaningful way. How should different measures be weighted when adding up? Even if measures are put into equal dimensions of percentile ranking there is still the problem of what weight to attach to the different indicators (Jackson, 2011, p. 17). Such problems undermined the theoretical basis of the English system of Comprehensive Performance Assessment (Jackson, 2011, Jacobs and Goddard, 2007).

If the use of performance information is the heart of performance-based budgeting, the above problems are at the heart of driving systems on performance and performance information.

Several authors/countries suggested various definitions of performance information. Curristine (2005, p. 130) defines performance and performance information as follows:

Performance can be defined as the yield or result of actions carried out for a government, an organisation, a unit or an individual person with respect to a set purpose. It is the fulfillment or achievement of these purposes (in some specific cases it could be the way of doing the work or how things are done).



Performance information is related to assessing actions – and corresponding progress in – achieving set purposes. It is possible to apply different methodological approaches for doing this and these can be grouped into two broader concepts: performance measurement and evaluation. Performance information can be quantitative or qualitative (Curristine, 2005, p. 130).

The Government of Indonesia specifies what to include as performance information in budget documents (RKAKL): programmes, activities, and performance targets (GoI, 2010a). The government also requires performance measurement and evaluation of RKAKL's execution that includes performance measurement and evaluation on the accomplishment of outcomes/outputs, efficiency, consistency between planning and execution, and budget spending (GoI, 2010a). Robinson and Lust (2009, p. 2) suggests that the vital requirements for performance-based budgeting are information about the objectives and results of government spending, in the form of key performance indicators and program evaluation; and the use of the information in budget decisions in budget preparation process. As noted above, performance information includes components of inputs, outputs, and outcomes. Table 2.2 provides the descriptions of the components of performance information.

**Table 2.2: Components of Performance Information**

Inputs	Resource to produce outputs. A measure of what a government organisation or organisation manager has available to achieve an output or outcome. Inputs can include: number of staff, budget amounts, equipment, facilities, supplies, goods/services received, work processes, rules, and other resources that are used in line ministries/agencies.
Outputs	Quantity and quality of goods and services produced by line ministries/agencies for citizens, businesses and/or other government organisations/bodies. For example, a Ministry of Finance output could be the monthly delivery of financial performance reports and the annual financial statements.
Outcomes	Progress in achieving programme objectives. The effects and consequences of government actions on a community. Outcomes reflect both the intended and unintended results stemming from government actions. For example, a Ministry of Finance outcome could be that government finances are sustainable and an outcome from the Ministry of Transport could be a decline in road accidents by 5%.

(Derived from: Curristine, 2005, pp. 129-130; Shah and Shen, 2007, pp. 143-144; Berry, 2008).

In relation to the use of performance information in the budgeting process, there are various categories of performance budgeting. For example, Shah and Shen (2007, p. 153) distinguish performance budgeting in four categories: performance-reported budgeting (PRB), performance-informed budgeting (PIB), performance-based budgeting (PBB), and performance-determined budgeting (PDB). The OECD places performance budgeting into three broad categories (OECD, 2007, p. 21) as summarised in Table. 2.3.

**Table 2.3: Performance-Based Budgeting Categories**

Category	Linkage between performance information and budget allocations	Planned or actual performance	Main purpose in the budgeting process
Presentationals	No link	Performance targets and or performance results	Accountability
Performance-informed budgeting	Loose/indirect link	Performance targets and or performance results	Planning and or accountability
Direct performance budgeting	Tight/direct link	Performance results	Resource allocation and accountability

(OECD, 2007, p. 21)

As shown in Table 2.3, the first category is presentational performance budgeting in which performance information, in the form of performance targets/results, is presented in budget documents/other documents. There is no connection between performance information and budget allocations. The information does not play a role in decision-making on allocations nor is it intended to do so. The second category is performance-informed budgeting. Budget allocations are connected with proposed future performance or past performance/results in an indirect manner. Indirect linkage indicates that performance information, along with other factors, is important and used in the decision-making process but it does not necessarily determine the amount of budget allocations. The third category is direct performance budgeting that involves direct/explicit linkage between budget amounts and units of performance, generally outputs. Therefore, budget allocations can be based on a formula/contract with specific performance indicators. Funding is also directly based on results achieved (OECD, 2007, pp. 21-22). Looking at the types of performance information used in each category of performance budgeting, performance information can be

divided into two components: performance targets and performance results. Public sector organisations, such as central budget office, line ministries/agencies, parliament, may use both types of performance information.

In summary, all the definitions of performance budgeting generally involve the presence of set purposes/objectives of programmes/activities and budget allocations associated with those programmes in order to attain performance or to fulfil achievement of those purposes. Performance budgeting also includes the use of formal performance information in budget allocation decision-making. Therefore, the availability of performance information and the use of performance information are of key importance in performance budgeting. The most important and intriguing question is whether government officials use performance information for determining budgets and other activities in the budgeting process. Robinson and Lust (2009, p. 4) argue that the availability of performance information is a necessary but not a sufficient condition in measuring the success of performance-based budgeting. They go on to argue that performance information also has to be actually used in the budgeting process. Before discussing the use of performance information in the budgeting process, we turn our discussion on the potential uses of performance information.

### **2.6.2 The Potential Uses of Performance Information**

A number of authors have attempted to suggest the purposes of the use performance information in public sector management and budgeting. In the broader management area, there are various ways of using performance information for managerial purposes. Behn (2003, p. 588) suggests that managers of ministries/agencies can use

performance information to: (1) evaluate; (2) control; (3) budget; (4) motivate; (5) promote; (6) celebrate, (7) learn, and (8) improve. He argues that these purposes are specific and distinct but somewhat overlapping. Moreover he also argues the ultimate purpose of using performance information is to improve the performance of public organisations. Table 2.4 summarises the eight purposes of using performance information (Behn, 2003, p. 588).

**Table 2.4: Eight Purposes of Performance Information Use**

The purpose	The public manager's question that the performance information can help
Evaluate	How well is my public agency performing?
Control	How can I ensure that my subordinates are doing the right thing?
Budget	On what programmes, people, or projects, should my agency spend the public's money?
Motivate	How can I motivate line staff, middle managers, non-profit and for-profit collaborators, stakeholders, and citizens to do the things necessary to improve performance?
Promote	How can I convince political superiors, legislators, stakeholders, journalists, and citizens that my agency is doing a good job?
Celebrate	What accomplishments are worthy of the important organisational ritual celebrating success?
Learn	Why is what working or not working?
Improve	What exactly should who do differently to improve performance?

(Behn, 2003, p. 588)

In contrast to Behn, Van Dooren, Bouckaert, and Halligan (2010, pp. 100-101) classified the use of performance information for three purposes: to learn, to steer and control, and to give account. The first purpose is to learn. Performance information is collected with the aim of finding out whether the programmes work or why the programmes do not work. So the main question is how to improve policy or management. Secondly, performance information is about identifying and sanctioning

ministries/agencies as well as government official/practitioners (to control and to motivate) and about allocating budgets (to budget). The main question of this category is how to be in control of activities. The use of performance information in performance budgeting is included in this classification. Thirdly, the purpose of performance information is to give account. The main question is how to communicate with the outside world about performance. Performance information used for this accountability purpose is mainly past performance.

Another scholar, Julnes (2008) suggests four purposes of collecting performance information: improvement, accountability, understanding, and mobilisation. Firstly, performance information is used for programme improvement, what changes should be made and what resources should be re-allocated in order to improve the programme. The second purpose is accountability. Performance information is mostly used for accountability and compliance to external audiences of ministries/agencies, such the President, the Parliament, and public. Thirdly, performance information is used by government officials to mobilise or to get support from external audiences. The fourth purpose of performance information is to learn and gain understanding of the programme. Performance information provides enlightenment about possible changes and direction that government managers may want to pursue in the future.

In budgeting, Robinson (2014a, p. 8) argues that performance information can contribute in three primary ways. Firstly, performance information helps government to improve expenditure prioritisation so that the programmes and budgets allocated can deliver the utmost benefits to public. Secondly, performance information can place more pressure on line ministries/agencies to improve the effectiveness of their

programmes because ministries/agencies recognise that the budget authorities, such as the Ministry of Planning and the Ministry of Finance, have good information about the effectiveness of the programmes and these authorities take into account the information for determining budget allocations. Thirdly, performance information, when it is available and used, can help in increasing efficiency of goods produced and services delivered by government.

In relation to the use of performance information in the budget cycle, the World Bank (2010, p. 16) summarise the potential uses of performance information in each stage of the cycle as shown in Table 2.5. As shown in Table 2.5, performance information may be used at the start of the budget cycle during strategic planning and budget preparation stage, at budget approval, during budget execution, reporting stage, monitoring and evaluation, and audit stage.

**Table 2.5: Potential Uses of Performance Information in Budget Cycle**

Budget Cycle	The Use of Performance Information
During strategic planning and budget preparation	To help set the macro-fiscal framework and inform budget negotiations, taking account of national plans, policies and sector strategies.
At budget approval	To identify expected results from proposed appropriations to aid the legislature's review of the proposed budget.
During budget execution	To help managers manage and monitor performance during the year.
Reporting	For reporting performance against plan, alongside financial information, in budget reports and ministry annual reports and others.
Monitoring and evaluation	As part of the formal monitoring, review and evaluation process.
Audit	To ensure accountability through financial and performance audits.

(World Bank, 2010, p. 16)

In addition, Hatry (2008a, pp. 231-236) discusses the large variety of uses of performance information including the use of performance information in budgeting processes. He indicates that performance information can be used for three purposes: it can be used for development or preparation of the budget, justification of the budget proposal, and performance information can be used to fulfill the requirements of the upper-level officials. Similarly, (Joyce, 2011, p. 357) argues that performance information can be used at each stage of the budgeting cycle: budget preparation in which ministries/agencies develop internal budget allocations and justify budget requests; budget approval from the parliament; budget execution by ministries/agencies; and audit and evaluation in which agencies and external auditors decide what have been the effects (financial and performance) of budgetary activities.

With regard to the users of performance information, Jackson (2011, p. 14) suggests four different users of performance information: politicians; central government ministries/agencies; auditors and regulators; and public managers. According to Jackson, politicians do not use performance information systematically. They use performance information for political debates about failures/success of programmes. Central government ministries/agencies use performance information to allocate resources. Auditors use performance information to evaluate public sector organisations, such as line ministries/agencies, through performance audits or value for money evaluation. Public managers use performance information for broad managerial purposes (Jackson 2011, p. 14). Hatry et al (2003) found that government officials/managers may use performance information for managerial purposes, such as to: motivate staff; develop employee performance agreements; use as basis for "How are we doing?" meetings; recognize and reward high-performing staff; disseminate



good practice information; identify problem areas and modify operational practices; identify root causes of problems and develop action plans to address; trigger enforcement activities; identify technical assistance and compliance assistance needs; identify staff training needs and provide training; and identify the need for policy or legislative changes.

As shown in Table 2.6, the World Bank (2010, pp. 23-25) identified some typical and emerging arrangements roles of budget actors and their responsibilities in OECD and other countries using performance budgeting at various stages of the budget cycle.

**Table 2.6: Roles of Budget Actors and Potential Uses of Performance Information**

Budget Actors and potential role in performance budgeting	Potential uses of performance information at key decision points in the budget process			
	During budget preparation	At budget approval	During budget execution, including in-year reporting and monitoring	Year-end reporting, audit and evaluation
<p>1. Presidency or Cabinet</p> <p>Sets key objectives and policy priorities for government and determines allocation of resources.</p> <p>Holds ministers and agencies to account for achievement of objectives and delivery services.</p> <p>Accounts to legislature and citizens on spending and achievements.</p>	<p>Performance indicators can be used to support political decisions concerning new policies and services or closing/changing existing policies/services</p>	<p>Demonstrable results and forecasted performance levels can be key inputs to negotiations to secure budget approval from the legislature.</p>	<p>Use of performance information is particularly strong where there are performance agreements between the president and line ministers or between ministers and ministers and other agencies.</p>	<p>Formal year end reports at whole of government and entity levels can include reports on achievements for non-financial performance as well as annual financial statements, submitted to the legislature and published after the end of fiscal year.</p> <p>Achievements against performance indicators can be used to monitor and hold ministers, line ministries and agencies to</p>

Budget Actors and potential role in performance budgeting	Potential uses of performance information at key decision points in the budget process			
	During budget preparation	At budget approval	During budget execution, including in-year reporting and monitoring	Year-end reporting, audit and evaluation
				account.  May include audits of financial and non-financial performance by external audit office.
2. Ministers  Hold their ministry, agencies, and other entities to account for performance and /or oversees the ministry's performance and its capability (depending on how separated a minister is from a ministry).	Approve their ministry's budget and agencies' budgets including the forecasted financial and non financial performance prior to submission. Also approve related policies and plans.	Negotiate budgets in Cabinet and in some countries defend the budget in the legislature or its committees.	Accountable for performance of ministry and agencies. Respond to changing priorities by requiring changes to performance from ministries and agencies within limits set by budget and law.	Monitor performance in year in ad hoc or routine way.  Answer to legislature for formal performance reports and reviews including audit reports relating to their ministry and agencies.
3. Planning Agency (this function often within the Ministry of Finance)  Develops national plan, and negotiate outcome targets for public investment programmes.  Monitor degree to which the goals stated in the National Development Plan (or government plan) and investment targets are being achieved.	Performance information on programme objectives and results can contribute to the negotiation between the planning agency and line ministries for investment budget.	Performance information on programme objectives and results can be provided to the legislature for its examination of the proposed investment budget.	Limited use in-year performance information regarding public investment.	Performance information supports reporting of progress against the National Development Plan.
4. Finance Ministry  Prepares medium-term fiscal	Performance information on previous and planned policy and	Performance information on policy and service results	Monitors in year performance reports including performance	Performance information can be included with the annual

Budget Actors and potential role in performance budgeting	Potential uses of performance information at key decision points in the budget process			
	During budget preparation	At budget approval	During budget execution, including in-year reporting and monitoring	Year-end reporting, audit and evaluation
<p>strategy/policy and annual consolidated budget submission incorporating performance information to justify allocation.</p> <p>Negotiates medium term and annual budget allocations with line ministries/agencies, drawing on performance information for submission to cabinet.</p> <p>May monitor performance agreements with line ministries and agencies.</p> <p>May monitor ownership interests in agencies, including SOEs, and guide budget aspects of performance reforms using regulation, oversight, and advice.</p>	<p>service results can contribute to the negotiations between finance ministry and line ministries/agencies, and in some countries and sub national governments in preparation of medium term budget plans and annual budget bids.</p>	<p>can contribute to the negotiation between ministers and budget committee of the legislature (some countries may involve negotiations between finance ministry and budget committee).</p>	<p>affecting fiscal position and risks. Some finance ministries monitor non-financial performance specifics in budget and related accountability documents and performance information in relation to performance agreements that this ministry has a mandate to monitor.</p> <p>Can also be used as part of performance management and review of key staff.</p>	<p>financial statements submitted to the legislature and published after end of fiscal year.</p>
<p>5. Line Ministries</p> <p>Tend to generate the majority of performance information.</p> <p>Can use performance information for internal management purposes, but</p>	<p>Performance information can be used for sectoral policy and service development including planning and costing.</p> <p>In addition, sector ministries negotiate the budget with the finance and planning</p>	<p>As line ministries increasingly directly to legislative demand for information concerning their performance, those ministries can use performance information in lobbying for</p>	<p>Particularly strong in the context of performance agreements between finance and line ministries. Also used in internal management of the line ministry, and in the context of supplier-provider</p>	<p>Annual reports by ministries can incorporate performance as well as financial information. Programme evaluation can both draw on and contribute to performance information. Line ministries can be required to</p>

Budget Actors and potential role in performance budgeting	Potential uses of performance information at key decision points in the budget process			
	During budget preparation	At budget approval	During budget execution, including in-year reporting and monitoring	Year-end reporting, audit and evaluation
increasingly for negotiating budgets with the finance ministry and managing agreements with service providers.	ministries. Those negotiations increasingly draw on performance information.	budgetary support at the time of budget approval.	arrangements or output based disbursements within the public sector or with other entities, including through use of league tables.  Can also be used as part of performance management and review key of staff.	improve the quality of data and of measurement on the basis of the findings and recommendations of audit reports.
<p>6. Legislature</p> <p>Approves the annual budget, informed by previous and planned policy and service performance information.</p> <p>Holds the executive to account for achievement against the targets set.</p>	<p>May review expenditure and performance in committees.</p> <p>In principle there is opportunity for the legislature to participate in budget preparation and use performance information in the process.</p>	There is growing legislative demand for performance information to support the process of budget approval.	There is some emerging reporting of performance in budget execution in many OECD countries.	Performance information provided with annual financial statements, and the results of programme evaluation and performance audit, can potentially be used by the legislature to hold the executive to account for use of public resources.
<p>7. External Audit</p> <p>In some cases, undertakes performance audits of government programmes, to assess efficiency and effectiveness in achieving government objectives.</p>	Can comment on suitability of performance indicators for use in service performance documents that will be formally audited (if there exist).	N/A	N/A	<p>Performance auditing can inform the legislature and other stakeholders on programme performance.</p> <p>Can also assure the quality of performance information systems and measures.</p>

(World Bank, 2010, pp. 23-25)

Overall, these studies suggest that performance information can be used not only for budgeting purposes, but also for broader management purposes. For budgeting, processes performance information may be used in various stages of the budget cycle and can be used by central budget authorities, line ministries/agencies, and the Parliament. The planning agency and the finance ministry can use it during budget preparation. They can use performance information for determining budgets of line ministries and for examining budget proposals of line ministries. They can also use performance information during budget negotiations with the budget committee in the Parliament. On the other hand, line ministries can also use performance information in budget negotiations with planning and finance ministries. They can also use it in lobbying the Parliament for budgetary support at the time of budget meetings or budget approval. Subsequently, the Parliament can use performance information to support the process of budget approval. For a broad managerial application, government officials/public managers can use performance information for various purposes such as for accountability, for mobilising or getting support from stakeholders, and for learning and gaining understanding of the programme. The ultimate goal of using performance information is to improve the performance of public organisations.

### **2.6.3 Evidence on the Use of Performance of Information**

In general, the use of performance information in the budgeting process can be divided into two major potential uses. Firstly, performance information is used for resource allocation decisions or budgetary decision-making. Secondly, performance information may be used for a broader management purposes. Numerous studies have

attempted to examine the use of performance information in performance-based budgeting in various countries and regions.

In 2005, the OECD conducted a survey that aimed to review the development and use of performance information, in the form of performance measures and evaluation, across OECD countries (Curristine, 2005, p. 88). The results of the survey showed that 79% of respondents from the OECD countries indicated that performance results are used as part of the budget discussions between the Ministry of Finance and line ministries. However, two-thirds of respondents indicated that they do not directly link performance results to allocations. Only certain countries used performance information that directly linked performance information to budget allocations, such as Chile, Denmark, Finland, Hungary, Norway, and Sweden (in the higher education sector). The majority of respondents stated that the Ministry of Finance often used performance information to inform budget allocations, along with other information and political factors, but performance information did not necessarily determine budget allocations. A few respondents used performance information as background information only. Therefore, the majority of respondents' systems fit into the category of performance-informed budgeting (Curristine, 2005, pp. 103-105). The results of the survey also indicated that most of the Ministries of Finance (96%) rarely or never used the results of performance measures to eliminate programmes or cut expenditure, or to reward line ministry/agency heads. In relation to using the results of performance evaluation, only Israel, Korea, and Poland responded that the Ministry of Finance frequently eliminate programmes that show poor performance. Eleven countries stated that this decision would be undertaken by the relevant ministry (Curristine, 2005, pp. 108-109).

Interestingly, the results of the OECD survey in 2005 indicated that the use of performance measures in the budget formulation process is more frequent and extensive among line ministries/agencies than in Finance Ministries, particularly in the case of performance agreement procedures between ministries and agencies. The Ministry of Finance rarely uses performance results to determine budget allocations (OECD, 2007, p. 44). The other uses of performance measures by line ministries are to redistribute resources, to extend programmes, and to provide information for policy development and advice (Curristine, 2005, p. 113).

The most recent OECD Performance Budgeting Survey in 2011/2012 also provides similar evidence. Performance budgeting frameworks in the OECD countries are generally flexible and not linked with budget decisions (OECD, 2014). In fact, with a few exceptions, in certain areas such as education and health, no OECD countries directly link public expenditures to performance information. Performance information is used to inform the budget, not determine it. This means that fiscal discipline is not threatened by the implementation of performance budgeting. (Hawkesworth and Klepsvik, 2013, p. 120).

The results of the OECD survey in 2011/12 also found that performance information is more frequently used for management and accountability purposes than for the allocation of resources. Performance budgeting is generally decentralised to line ministries/agencies but there is no clear answer about what the reaction of the government to bad performance may be (Hawkesworth and Klepsvik, 2013, p. 120).

In different region, as part of its review on budgetary institutions in G-20 countries, the IMF (2014a) argued that programme and performance budgeting are now the norm in both advanced and emerging G-20 countries. However, the initiatives to enhance the performance orientation of budget decision-making have been concentrated in emerging countries. With regard to the use of performance information in budgeting process, IMF (2014b) reported as specific evaluations for several emerging countries. In Brazil, despite the progress made with reporting performance information, its use in funding decision is reportedly still quite limited. In China, performance information is not used systematically in budget negotiation or in the decision-making process of the State Council. In India, the linkages between performance and budget allocation are not always clear. In Indonesia, the government is in the process of introducing performance budgeting as is found in this thesis. In the current situation, performance information is not used extensively in budgetary decision making. In Indonesia, non-discretionary expenditures that include operational expenditures tend to increase incrementally from year to year without any review. IMF (2014a) recommended that countries need to make more systematic use of expenditure reviews to ensure that information on the efficiency and effectiveness of expenditure programmes actually informs decisions about their future budgetary allocations.

In another region, CABRI (2013) studied the status of performance and programme-based budgeting implementation in African countries and it found that the impact of performance and programme-based budgeting (PPBB) in Africa were mixed. The impact of PPBB on budget allocations was quite limited, 42% of the survey respondents noted that information from performance reports was not successfully



used to inform the ceilings for line ministries. One third of the respondents noted that information from performance reports was partially used to inform the ceilings for line ministries. Only one quarter of the respondents noted that performance information was successfully used to inform the ceilings for line ministries (CABRI, 2013, pp. 26-27). The positive effect of the PPBB was that the Ministry of Finance was more concerned with broader budget allocation decisions than with the micro-management of ministries' spending programmes. Line ministries/agencies also have more flexibility in determining their annual programme budgets. In addition, the budget bids from the line ministries have improved in quality and were more evidence-based (CABRI, 2013, pp. 26-27). With regard to the impact of PPBB on budget reporting and accountability, about half of survey respondents indicated success in measuring and reporting performance (outputs and outcomes) to the Ministry of Finance on a regular basis. However, only one quarter of the respondents indicated that performance was taken seriously by line ministries and PPBB was used to hold accounting officers and other officials to account.

There have been a number of empirical studies examining the use of performance information during the budget preparation process by the executive branch of government. In the USA, Gilmour and Lewis (2006) conducted a regression analysis of the PART (Program Assessment Rating Tool) scores on changes in the President's proposed budget, and found a modest but significant positive correlation. Their findings were in line with the result of a qualitative study by White (2012) who found that the influence of the PART on budget allocations to be marginal. Another qualitative study regarding the implementation of performance-based budgeting (PBB) by Hou and Lunsford et al (2011) in eleven states in the USA found that

performance budgeting was not necessarily used for budgetary decision-making during times of financial hardship.

Hou et al (2011) examined the performance-based budgeting reform in USA state governments. They used a qualitative study, reviewing documents as well as interviewing budget, finance, and management officials in eleven state governments. They found that a good performance measurement system takes time to develop and operate well. Performance information was useful in providing direction for management improvement but it was not playing a significant role for budgetary decision making.

Willoughby and Melkers (2000) conducted a survey of executive budget offices and legislative budget officials from states governments in the USA. One of the objectives of their survey was to assess the opinions about the success of this reform in terms of agency efficiency, effectiveness, decision making, public reaction, as well as perceived effect on agency workload and operations. They found that budget officials consider that performance based budgeting has been at least “somewhat effective” in improving agency programme results, decision making in government and coordination between agencies and the legislature. On the other hand, budget officials perceived that performance-based budgeting has been “less effective” in reducing duplicate services and affecting cost savings, and “not effective at all” in appeasing the public and changing appropriation levels.

Zaltsman (2009) used qualitative analysis to investigate the use of performance information in budget allocations by Chile’s budget bureau. He found that

performance information did not affect budget allocation decisions. Melkers and Willoughby (2005) examined the effects of performance information on budgetary decision-making and other operations from a survey data of administrators and budgeters from nearly 300 local governments in USA. Melkers and Willoughby (2005, p. 188) found that performance information improves communication within and across branches of government, advances discussion about the results of government activities and services, adds value to budgeting decisions by providing relevant information about the results, costs, and activities. However, they found that the government practitioners did not find the effectiveness of performance information to influence budgeting processes. They found that respondents doubted the influence of performance information for budgetary purposes such as changing appropriation levels, reducing ineffective programmes, and reducing duplicated services. In contrast with other studies, Ho (2011) examined the influence of performance information at the sub-departmental programme levels in the city of Indianapolis in USA and found that performance measurement was positively related to intra-departmental programme budget changes.

Sterck (2007) studied the impact of performance budgeting on the role of the legislature in Australia, the Netherlands, Sweden, and Canada. He conducted a qualitative study using a literature review, document analysis, and semi-standardised interviews with civil servants that involved in performance budgeting reforms. Sterck (2007) found that performance budgeting initiatives have a dominant focus on changing budget structure, but do not seem very successful in actually changing the budget functions. There was very little evidence that performance information in budgets and annual reports was directly used by members of Parliament in their

oversight function. Similarly, Raudla (2012) found that the legislators in Estonia made only limited use of the formal documents of performance information because the documents were difficult to read, there was a time-constraint in the budget process, and the parliament had only a limited role in changing the budget.

In summary, the literature shows that despite the potential use of performance information for budgeting purposes and the aspiration of performance budgeting to use performance information in budget processes and budget allocation, the actual use of performance information in determining a budget is very low. However, Joyce (1999) argues that performance information can do more than influence budget allocation decisions. Line ministries/agencies may use performance information for improving the use of the existing budgets and management purposes. Julnes (2008) also argues that using performance information to inform dialogues among decision makers should be considered a positive contribution of performance measurement rather than a failure.

#### **2.6.4 Benefits of Performance-Based Budgeting**

Smith (1999, p. 5) identifies six benefits of performance-based budgeting. First, it increases the efficiency and effectiveness by concentrating resources for the most critical and important outcomes. Second, it improves decision making in using limited public resources effectively. Third, it improves processes by linking the budget to programme performance over time. Fourth, it improves understanding and communication about critical issues and priorities relative to resources. Fifth, it makes managers more accountable for programme decisions that affect budget outcomes. Sixth, it supports managements by connecting budget results and budget performance

measurement with programme performance measurement in the process of monitoring, evaluating, and reporting results. However, despite those benefits, Smith (1999) also argues that there are potential threats associated with each possible benefit of performance-based budgeting. Performance-based budgeting is more vulnerable to threats from fraud, falsification, and misrepresentation than previous budgeting systems.

Joyce (1993) argues that performance measures can be useful as motivational tools; that is, they can encourage government practitioners to improve their performance. Ultimately, repeated use and exposure of performance information can develop “performance culture”. Performance targets and measurements may not be precisely correct at first. Because the measurements will not be right at first, government practitioners must be realistic about how much they can be used to influence budgeting in the short term. Line ministries/agencies should increase their ability to get the measures right over time. Joyce goes on to argue that the budget process is not likely to be changed substantially until and unless decision makers use performance information in budget allocation decisions. This change is likely only to occur after the "performance culture" infiltrates the process. Therefore, in the short-run the government should focus on developing of performance measures for management purposes rather than for use as a resource allocation tool.

Moravitz (2008, p. 381) suggests four benefits of performance-based budgeting. Firstly, ministries/agencies can focus on their mission and goals rather than focus on scrutinising expenditures. Performance-based budgeting improves the efficiency and effectiveness of government by allocating budgets for the most important outcomes.

Secondly, performance-based budgeting can improve activities by linking budget and programme performance. It can also increase communication about important issues and priorities relevant to budget requests and the use of funds. Thirdly, at management level, performance-based budgeting permits government managers to make decision based on performance information to improve the effectiveness of activities.

### **2.6.5 Limitations of Performance Information**

This section discusses the limitations of performance information in budgeting processes.

Joyce (1999, pp. 613-614) suggests two reasons why it is not easy to figure out how to use performance information in budget allocation decisions. Firstly, it is very difficult to find common denominators of performance among government programmes/activities, as earlier pointed out by Key (1940, p. 1143). For example, the measures of success in the education programme are different from those in the health programme. Performance information can help government officials to determine budget needed by a programme, but it cannot aid the budget office on the question of how much to allocate budget for a programme at the expense of another programme. Politics plays an important and legitimate role in budget decisions although performance information exists. Secondly, the relationship between performance and the budget is not straightforward. Performance information may identify trends and developments about programmes/activities that demand attention, but government officials should takes a more comprehensive evaluation to reveal whether the cause of good or poor performance is related to the funding levels.

Furthermore, Hawkesworth, Melchor, and Robinson (2013, p. 7) argue that the reason why performance information is having less impact on budget allocation decisions than might be hoped is because cutting ineffective programmes is never easy politically, because there is always someone who benefits from each programme and therefore some political cost to abolishing it. When studying performance budgeting in Chile, Hawkesworth, Melchor, and Robinson (2013, pp. 7- 15) discussed four technical factors to explain the limited use of performance in the budget: weaknesses in the budgetary programme structure; the lack of sufficiently strong focus in the evaluation system on supporting budget preparation; the weaknesses of priority analysis; and the lack of a spending review mechanism.

In addition, Hatry (2008a, pp. 237-238) indicates three limitations of performance information. Firstly, performance data do not provide information about why performance has been good or bad or what should be done to improve the performance of government programmes/services. This suggests that government officials should conduct detailed further examinations or evaluations to obtain a more complete understanding and get more information regarding the causes of the problem. Another limitation of performance information is that it generally focuses on a limited number of 'key' performance indicators. The performance measurement system might not span enough information to give a comprehensive perspective on a particular issue. Therefore, government officials will be likely to need more information than that included in their current performance measurement process. The final limitation of performance measurement is that it provides data about the past. The performance data provide a main source of information for government officials to make decisions about what should be done in the future. However, government

officials may face difficulties in projecting the past data into the future. The use of past data may be a particular limitation if a ministry/agency wants to consider innovative options/programmes rather than continue the existing programmes.

In summary, performance information has had a limited effect on the implementation of performance-based budgeting systems because it is very difficult to define what is performance among government programmes. It is difficult to measure outcomes of government programmes. In addition, performance information generally focuses on a small number of key performance indicators. The relationship between performance and the budget is not straightforward. It is very difficult to compare performance among government programmes and decide how much to allocate budget for a program at the expense of another programme. Furthermore, the use of past performance data may be limited if a ministry/agency wants to consider innovative programmes rather than continue the existing programmes. Lastly, politics plays an important and legitimate role in budget decisions and may dominate such performance information as exists.

#### **2.6.6 Challenges Encountered in Implementing Performance-Based Budgeting**

Drawing from the literature regarding the implementation of performance based budgeting in the USA, Andrews (2004) suggests a model that emphasises three factors affecting reform implementation: ability, authority, and acceptance. Each factor has several aspects that contribute to the success or failure the implementation of performance-based budgeting. For simplicity, the three factors and their aspects can be seen in Table 2.7.



**Table 2.7: Factors Affecting the Implementation of Performance-Based Budgeting**

No.	Factors and Aspects	Description
1.	Ability	
	Performance evaluation ability	If governments lack the ability to measure a useful performance, performance-based budgeting is guaranteed to be failure.
	Personnel ability	Governments should ensure the competencies of key personnel when implementing performance-based budgeting.
	Technical ability	Particular technical requirements are needed to collect performance information and provide a commonly available database in which performance information is readily available, in appropriate formats, to a variety of users.
2	Authority	
	Legal Authority	Performance-based budgeting cannot be implemented if it conflicts with such legislation such as budgeting processes and or human resource legislation.
	Procedural authority	Successful performance-based budgeting reform implementation requires compatibility of the reform with existing rules and procedures.
	Organisational authority	Performance-based budgeting appears to be most effectively adopted when discretion is decentralised in decision making about staffing, budgeting, reporting and others.
3	Acceptance	
	Political acceptance	Performance measurement and the use of performance information in allocations decisions need acceptance from politicians.
	Managerial acceptance	If line ministries/agencies feel that legislators will use performance information to sanction line ministries/agencies more often than reward them, they will probably not support the initiative. If line ministries/agencies do not see performance information as useful in impacting decisions, they will not support performance-based budgeting.
	Incentive ability	Incentives are needed to make performance budgeting reforms effective.

(Derived from Andrews, 2004)

Shah and Shen (2007) summarized the critical factors or basic conditions needed to maintain performance budgeting reforms. First, a consensus on the need for

performance budgeting reform among officials is important to ensuring successful implementation. Second, strong and consistent political support from the legislature is important for performance budgeting efforts. Third, support and engagement from citizens is also important. Fourth, support for staff training, information technology, accounting systems, and the budget is also important for performance budgeting initiatives.

With regard to performance information, Hatry (2008a, pp. 227-228) identified five key “technical” elements that appear essential for successful use of performance information. First, there is the question of the validity of the performance indicators: whether the indicators measure what is relevant and important about the particular issue, programme, or service. Second, there is the quality of data collected for each of the performance indicators. Third, there is the timeliness of data, whether the performance data is collected and reported in sufficient time and whether performance information is available when needed. Fourth, it is important that some basic data analysis at least has been carried out to put it into a meaningful form so that the users can interpret the levels of performance. Five, performance information needs to be presented in a form that the users can easily read, understand, and interpret it.

OECD (2007, p. 69-71) listed several challenges encountered by most OECD countries with the implementation of performance budgeting reform. Firstly, many countries continue to have problems related to performance measurement. They struggled to find accurate measures for outcomes particularly and outputs of certain activities. There were also problems with time-lag issues and in some cases the results of programmes/activities are beyond the control of the government. In addition, most

countries faced a problem in their systems of data collection. Secondly, most countries find it is difficult to change the behaviour and culture of key budget actors that are familiar with traditional budget practices. Government practitioners in line ministries can resist change because it is not clear whether and how performance information will be used by central budget office (the Ministry of Finance) and politicians. Budget officials in the Ministry of Finance can also reject change by preferring the familiar systems of input control rather than focusing on performance information. The Ministry of Finance may fear that the change to performance budgeting will result in them having less control over expenditure. Other factors that affect the use of performance information are the quality of the information, the institutional capacity of the central budget office (the Ministry of Finance) and line ministries/agencies, and the political and economic environment.

Lu, Mohr, and Ho (2015) reviewed literature about performance budgeting research in the USA and found that 27 important factors influence the use of performance information. These factors are grouped into six categories: the measurement system, support for performance, investment and capacity, implementation approaches, (dis)incentives, and characteristics of implementation organizations. The twenty-seven factors that influence performance information use are summarised in Table 2.8. The Table presents the factors' frequency and percentages identified as important.

**Table 2.8. Factors Identified as Important for Use of Performance Information**

<b>Factor</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Measurement system (Avg. Pct. 25%)</b>		
• Quality of measurement	37	61%
• Timely data	5	8%
• Link measures with strategic plans	9	15%
• Link measures with resource allocation	10	16%
<b>Support for performance (Avg. Pct. 23%)</b>		
• Legislative support	18	30%
• Executive leadership support	20	33%
• Management support	12	20%
• Staff buy-in	5	8%
• Citizen support	8	13%
• Political support	31	51%
• Performance-oriented organizational culture	7	11%
• Shared responsibilities for PBB among stakeholders	9	15%
<b>Investment and capacity (Avg. Pct. 19%)</b>		
• Time investment	5	8%
• Resources	15	25%
• Staff capacity	13	21%
• Information system capacity	13	21%
<b>(Dis)Incentives (Avg. Pct. 14%)</b>		
• Presence of requirement (legislation or executive order)	7	11%
• Incentives/sanctions for meeting/not meeting performance target	10	16%
<b>Characteristics of implementing organization (Avg. Pct. 13%)</b>		
• Economic factors (e.g., economic downturn)	5	8%
• Organizational factors (e.g., size)	11	18%
• Demographic variables	8	13%
<b>Implementation approach (Avg. Pct. 4%)</b>		
• Reform timing	2	3%
• Top-down or bottom-up approach to performance budgeting	4	7%
• Use of benchmark	4	7%
• Use of professional help	3	5%
• Online reporting	1	2%
• Audit	1	2%

(Lu, Mohr, and Ho, 2015, p. 434)

Looking at Table 2.8, overall, the top three factors that are important for the use of performance information in budgeting are: “quality of measurement” (it is mentioned by 61% of the articles reviewed), “political support” (51%), and “executive leadership support” (31%) ((Lu, Mohr, and Ho, 2015, p. 433).

In relation to developing countries, CABRI (2013) identified eight main challenges in implementing performance and programme-based budgeting (PPBB) in Africa. First, African countries encountered challenges in PPBB design and leadership. In particular, more than half of the survey respondents indicated that formulating clear objectives (outcomes) and/or developing appropriate performance information for use in budget allocation decisions were challenging. Some 40% of the respondents also indicated that understanding the concept of PPBB, such as programmes, outputs, and outcomes were challenging. In relation to leadership, one third of the respondents indicated a lack of leadership or commitment in promoting performance and programme-based budgeting. Second, African countries found challenges in using performance information. More than half of the respondents indicated it was difficult to define appropriate and relevant performance measures. They also noted that performance measures do not provide information on efficiency or cost-effectiveness of outputs. A quarter of respondents also noted that the role of performance information presented in the budget documents for budget decisions was unclear. Performance information provided was not relevant for budgetary decision-making. Third, African countries found challenges regarding resources. It was reported that there was insufficient capacity in the Ministry of Finance and line ministries to implement reforms. In addition, there were insufficient resources (time, staff, and funds) to implement reforms. Moreover, a major technical challenge for several countries was difficulty in mapping a programmatic structure from the line item budget to a programme budget. Several countries have created a programme structure for the budget which exists alongside the line item budgets and organisational structure. The three elements are not connected seamlessly in the annual budget, nor in national development plans. Fourth, several countries found an organisational

challenge. They found difficulties in aligning programmes to organisational structure. More than half of the respondents noted this to be a significant or very significant challenge. Some senior officials from countries such as Burkina Faso and Tunisia were resistant to PPBB reforms because they feared they would lose their job in any rationalisation of administrative structures. Fifth, promoting a performance culture and holding programme managers to account were found to be challenging. In many African countries, decision-making and management are highly focused at presidential or ministerial level. In line ministries, senior civil servants did not have enough skills in budget management and the identification and appointment of senior civil servants responsible for the management of budget programmes and performance has proven to be problematic. Sixth, African countries found technological challenges with regard to the capability of their information and technology systems in managing PPBB systems and integrating financial and non-financial information. Seventh, there was a challenge of adopting a new/revised organic budget law to replace the existing legal and regulatory budget framework. The absence of a revised law means that a line-item approach was still being used in the budgeting process. Eighth, there were challenges in involving Parliament in PPBB reforms. Parliaments in African countries were weak and dominated by the ruling parties. There was little incentive for Parliament to scrutinise and challenge budget proposals from the government. Committees in Parliaments dedicated to managing the budgeting process either do not exist or are weak. In addition, most Parliaments in Africa lack the capacity for independent budget analysis that could assist Parliament in scrutinising annual performance reports.

## **2.7 Theoretical Framework Used in Performance-Based Budgeting Studies**

This section discusses a variety of theoretical frameworks used in existing studies of performance budgeting as well as broader area such as performance management and management accounting. In their review of past performance-based budgeting studies, several authors noted that the majority of the studies did not contain any theoretical framework. For example, Lu, Mohr, and Ho (2015, p. 441) found that 45 out of 61 studies examined did not use any theoretical framework. Studies were mainly descriptive and tried to help readers understand how a particular government implemented performance-based budgeting during a certain era. Mauro, Cinquini, and Grossi (2015, p. 8) also found that the majority of the papers examined (15 out of 24 papers) lacked a strong and clear reference to theories. Among the studies that have employed some theoretical discussion or perspective, the authors also found that no clearly dominant paradigm had assisted the research on performance-based budgeting. This section briefly discusses a variety of theoretical frameworks or approaches that can be identified as being used by past studies.

A number of studies (see for example Kelly and Rivenbark, 2008; Reddick, 2003) provide theoretical discussion of the implementation of performance budgeting in the context of incrementalism. This incremental approach has been discussed earlier in Section 2.4 of this chapter. Reddick (2003) examined the government budget outcomes in the USA from 1968 to 1999 and the result provided support for incremental budgeting. Kelly and Rivenbark (2008) used local government per capita expenditures in the USA from 1994-2004 and they found that incrementalism was present as represented by the annual percentage of change over the 10-year period.

Other studies examined performance budgeting from an organisational management perspective. Using the dialogue theory that emphasises the ambiguity of performance information and related resource allocation choices, Moynihan (2006) found a variety of ways in which different individuals can examine the same programme and, using logical warrants, come to different conclusions about performance and future funding requirements. Sterck (2007) used literature on budgeting as well as innovation literature to develop an analytical framework for comparing performance budgeting initiatives in Australia, the Netherlands, Sweden, and Canada. He argued that performance budgeting can be seen as an innovation which can be examined into four phases in the innovation cycle: the context, the innovation process, the adoption, and the implementation. The three hypotheses were tested in his study: an innovation will be more successful when the different functions of the budget system are well balanced; innovation pressure is a crucial driver for reform; and capacity for innovation has a positive influence on the adoption and implementation of reforms. The study concluded that the performance budgeting initiatives in the four studied-countries have a dominant focus on changing the budget structure, but do not seem very successful in altering the budget functions.

Mimba, Van Helden, and Tillema (2013) used a revised version of a neo-institutional framework developed by Brignall and Modell (2000) to study the design and use of performance information in a local government in Indonesia. This framework assumes that each group of stakeholders namely funding bodies, statutory boards, and purchasers has its own performance interests. They used this framework for less developed countries as a context which are characterised by a low institutional capacity, lack of market pressure, and high levels of corruption. Following the



argument of Brignall and Modell (2000), they argue that when one group of stakeholders is dominant, performance information related to its performance interests is integrated throughout the organisation hierarchy and is used functionally. Traditionally, funding bodies were the only powerful stakeholders. However, the symbolic use of performance information will be stimulated by the presence of low institutional capacity and the high level of corruption in less developed countries. Furthermore, they also argue that when more groups of stakeholders become more powerful, performance information will be used symbolically rather than functionally (Mimba, Van Helden, and Tillema, 2013, p. 18-19). Using this framework, they concluded that managers in the selected local government agencies focus more on fulfilling the formal requirements regarding the format of the annual performance reports and on their timely submission than on their contents. These features are symptoms of a symbolic rather than functional use of performance information. However, the managers use the reports that include information on inputs in a functional manner. In terms of the analytical framework used, the impact of the characteristics of less developed countries on the use of performance information on outputs and outcome overshadows the impact of a dominant stakeholder (Mimba, Van Helden, and Tillema, 2013).

An institutional framework is also applied by Burns and Scapens (2000) to suggest how management accounting change can become routinised. Drawing from old institutional economics, the framework explores the complex and ongoing relationship between actions and institutions, and demonstrates the importance of organisational routines and institutions in shaping the process of management accounting change. The framework suggested that management accounting change as

a process, is considered as a routine organisational practice, and potentially institutionalised. Organisational routines play an important role in the relationship between actions and institutions. In the process of routinisation, rules could be described as routines when groups of individuals in an organisation repeatedly follow rules that become the habits of the group. Rules are 'the formalised statement of procedures' or 'things that should be done', whereas routines are 'the procedures actually in use' or 'things that are actually done' (Burns and Scapens, 2000, p. 6-7). Burns and Scapens (2000) use the example of budgeting to illustrate the process of routinisation. They argue that budgeting routines emerge and reproduce, over time, once budgeting rules and procedures are established. Ultimately, budgeting can then become taken for granted among personnel such that its enactment is performed without conscious recourse to the initial rules. In an organisation, the process may move from routines to rules. Routines may emerge which either have departed from the original rules, or never explicitly set out in the form of rules. These established routines may be formalised in a set of rules. Therefore, there can be a two-way relationship between rules and routines. In either case the enacting and reproduction of rules and routines will continue over time, and in this process the routines may be changed. The enactment of rules and routines may be subject to resistance, particularly if they challenge existing conditions and actors have power to intervene the process. It seems likely that change which is consistent with existing rules and routines will be easier to achieve than change which challenges those rules and routines. Therefore, it is important that managing change requires a comprehensive understanding of the current context of the organisation. The emerging routines can be said to be institutionalised when they become widely accepted in the organisation

such that they become the unquestionable form of management control (Burns and Scapens, 2000).

Furthermore, Burns and Scapens (2000) suggest three dichotomies of the processes of management accounting change found in old institutional economics literature that can be useful for studying management accounting change. Firstly, there is the dichotomy between formal and informal change. Formal change occurs by design through the introduction of new rules or through the actions of powerful individual or group. In contrast, informal change occurs when new routines adapt over time to changing operating conditions. Secondly, there is the dichotomy between revolutionary and evolutionary change. Revolutionary change includes a fundamental disruption to existing routines and institutions. Evolutionary change, however, is incremental with only minor disruption to existing routines and institutions. Thirdly, there is the dichotomy between regressive and progressive change. Regressive change is behaviour that reinforces ceremonial behaviour, thus restricting institutional change. On the other hand, the progressive change displaces ceremonial behaviour by instrumental behaviour.

In summary, this section has discussed the various types of analytical framework or theories used by existing studies on performance budgeting as well as management accounting. The incremental approach as discussed earlier in Section 2.4 and institutional framework suggested by Burns and Scapens (2000), in particular, will be useful to inform interpretive studies of the processes of management accounting change, in this case, for seeking evidence on the existence of incremental budgeting

practices and understanding the process of the implementation of performance-based budgeting in Indonesia.

## **2.8 Conclusion**

This chapter has discussed the two main approaches that can be distinguished in budgeting, incremental budgeting and performance budgeting, that are particularly relevant for this study. It is argued that incremental budgeting practices are still important in public budgeting. Budgeting continues to be incremental because incremental approach makes decisions on resource allocation easier, simpler, and more flexible. It can also reduce conflict among budget actors and offers stability among government programmes.

On the other hand, performance budgeting practices have been implemented in many countries across different continents. Performance budgeting is a concept that links performance information with the budget. Conceptually, the identification of performance as the maximisation of social welfare from the effective production of valued outcomes resulting from outputs efficiently produced by the use of economically procured inputs has long been clear in the abstract terms of neoclassical economic theory. Operationalising that theory in a way that leads to clear practical procedures for measuring performance that can be aggregated or compared across different agencies remains problematic. However, the availability and use of performance information very important in performance-based budgeting and there has been much progress in pragmatic and piecemeal development of indicators. The use of performance information in the budgeting process can be divided into two major potential uses. Firstly, performance information is used for resource allocation

decisions or budgetary decision-making. However, previous studies have suggested that the actual use of performance information in the practice of determining a budget is generally minimal. Performance information has a limited effect on the implementation of performance-based budgeting systems because, as noted, it is very difficult to define what is performance with sufficient precision and clarity to aid allocation decisions between competing government programmes. That is because it is hard to measure outputs and outcomes of government programmes and hence compare performance between government programmes and decide how much to allocate budget for a program at the expense of another programme. Politics plays an important and legitimate role in budget decisions and may dominate the impact of such performance information that exists.

Advocates of performance-based budgeting may have underestimated the complexity of the public budgeting process. Therefore, it is perhaps not surprising that the actual implementation of performance-based budgeting has been very limited. Other than for allocating budgets, performance information can be used by central budget authorities, line ministries/agencies, and the Parliament in budget meetings and negotiations in various stages of the budget cycle. Performance information can also be used for broad managerial applications. Government officials and public managers can use performance information for various purposes such as for accountability, for mobilising or getting support from stakeholders, and for learning and gaining understanding of the programme. The ultimate goal of using performance information is to improve the performance of public organisations.

Most countries have also encountered several challenges in seeking to implement performance budgeting reform. Most countries continue to have problems related to performance measurement particularly in finding accurate measures for outcomes and outputs of programmes and activities. They have faced a problems in their systems of data collection. Countries have also faced problems in getting support for leadership and management in promoting performance budgeting. Furthermore, most countries find it is difficult to change the behaviour and culture of key budget actors that are familiar with traditional budget practices. Other factors that affect the use of performance information are institutional capacity of the central budget offices and line ministries/agencies, and the political and economic environment. It is argued that the implementation of performance budgeting can be regarded as a process of change in organisational rules and routines. Therefore, the institutional framework developed by Burns and Scapens (2000) can be used for interpreting the implementation of performance-based budgeting in Indonesia. The framework suggests the complex and ongoing relationship between actions and institutions, and demonstrates the importance of organisational routines and institutions is shaping the process of management change.

The next chapter will discuss the evolution of performance-based budgeting implementation in Indonesia.

## **Chapter 3 - Budget Reforms and Performance-Based**

### **Budgeting in Indonesia**

#### **3.1 Introduction**

This chapter sets out the evolution of performance-based budgeting implementation in Indonesia that has been in process since the Asian financial crisis of 1997 and the political transition in Indonesia of 1998. How such a process is implemented depends a lot in practice on the precise institutional arrangements put in place. The chapter describes these arrangements in detail and provides the necessary background for the empirical research reported in Chapters 5, 6, and 7. The Government of Indonesia has carried out a series of measures designed to implement performance-based budgeting.

The chapter starts by discussing the background of public management reforms in Indonesia that began to be implemented after the Asian financial crisis of 1997. The key laws and regulations that have guided the planning and budgeting process in Indonesia and that have affected the implementation of performance-based budgeting are also discussed. The significant phases of the reforms are then described. The features of Indonesian performance-based budgeting, including the introduction of performance measurement and evaluation (performance scores), are also presented. The chapter then continues with a discussion of the four key actors involved in the planning and budgeting process, and the three budgetary decision stages of the Indonesian processes. The chapter concludes with an identification of the potential uses of performance information in the planning and budgeting process.

### **3.2 Public Financial Management Reforms in Indonesia**

The public financial management reforms in Indonesia were triggered by the Asian financial crisis of 1997 and the political transition of 1998 (ADB, 2010, p. 4; Rhodes *et al.*, 2012, p. 246). At that time, Indonesia experienced a severe economic crisis that caused a sharp rise in poverty, a 13% fall in GDP, and near bankruptcy of the financial sector (Chaudhuri, 2009, p. iv). Since then, the public has demanded greater transparency and accountability from the government (World Bank, 2001a, p. i).

In 2001, according to its report, the World Bank assessed several weaknesses of the Indonesian budget, such as the existence of dual budgeting i.e. the separation of routine and development budget that was paralleled by the separation of responsibility between the Ministry of Finance and the Ministry of Planning (Bappenas), and the absence of information on programmes and outputs. The World Bank report also commented that the budget systems generated little information on programme results. The absence of performance information made it difficult to hold budget planners accountable for determining budget allocations. There was performance information on output, for the development budget, but it was not linked to the budget preparation process. In conclusion, there was no performance-based budget system in Indonesia (World Bank, 2001a, pp. 7-10).

Responding to the assessment from the World Bank, the Indonesian government, led by the Minister of Finance, established a high-level committee, called the Financial Management Reform Committee, to guide reform of the financial management system (World Bank, 2001b, p. 3.5).



The commitment of the government to reform the financial management system, led by the Financial Management Reform Committee, was demonstrated by the issuance of the White Paper of Reform of Public Management System in 2002 (Thomas *et al.*, 2012). In this paper, the committee assessed the need for reforms in the government budget and financial management process with regard to the budgetary process, budget execution and government auditing (the Ministry of Finance (MoF), 2002). In relation to the existing budgetary process, the committee identified the following characteristics (MoF, 2002):

- As noted above, the expenditure budget was divided into two major elements: routine or recurrent budget and development budget. As a result, budget duplications frequently occurred. The Directorate General of Budget in the Ministry of Finance (MOF) was responsible for preparing the recurrent budget. The development budget was prepared by the Ministry of Planning (MOP)/Bappenas (the National Planning and Development Agency). The committee found a need to adopt a unified budget system. It also found that to improve the planning and budgeting process, the role and responsibility of the Ministry of Planning and the Ministry of Finance should be clearly defined in terms of the national strategic planning and the annual budget preparation.
- The committee found that the budgeting system was input-based. The input-based budgeting approach did not provide relevant information for measuring the performance of spending units in line ministries/agencies. Although the budget was classified into organisational units, functional, and economic classification, it was limited to an input approach. These classifications failed to accommodate performance measures. The committee recommended the

introduction of a performance-based budgeting system for performance control and evaluation.

In order to reform the public financial management system and to improve the legal framework of public financial management, the government proposed three draft laws to the Parliament: the State Finance Law, the State Treasury Law, and the State Audit Law. The draft State Finance Law, in particular, was intended to be an organic law laying down major principles for public expenditure management in Indonesia (MoF, 2002). Thus, following the financial crisis and the transition to democracy in Indonesia, there was a strong emphasis on reforming the legal framework for budgeting (Blondal, Hawkesworth, Choi, 2009, p. 6).

The key elements of the reforms were set in place by the enactments of four major laws: the State Finance Law 17/2003, the State Treasury Law 1/2004, the State Audit Law 15/2004, and the National Development Planning Law 25/2004. The enactments of the laws were significant steps for Indonesia in adopting good international practice (World Bank, 2008, p. 97). The State Finance Law 17/2003, in particular, provides a legal basis for the implementation of budgetary reforms in Indonesia (Directorate General of Budget, 2012, p. 71).

### **3.3 The State Finance Law 17/2003 and the System of National Development Planning Law 25/2004**

This section discusses the importance of the State Finance Law 17/2003 and the National Development Planning Law 25/2004 in the planning and budgeting process.

The implementation of performance-based budgeting in Indonesia is an integral part of the planning and budgeting process regulated by these laws.

The issuance of the State Finance Law 17/2003 was a major step for Indonesia in implementing a sound public finance management system (Ginting, 2003, p. 353). The law mandates the government to implement best practices in managing state finances, such as accountability with results-orientation, professionalism, proportionality, and openness (GoI, 2003). The law stipulates the general principles and the authorities for the management and accountability of state finances, specifies the constitutional provisions for the budget process, mandates specific milestones and dates for the preparation and adoption of the budget, and establishes the financial relationship between the central government and other institutions (Blondal, Hawkesworth, Choi, 2009, p. 6).

Aiming to implement performance-based budgeting, the law required line ministers/agencies to develop their annual work plans and budget documents (RKAKL) using performance targets. The law also established the requirement for a unifying performance management system in the budgeting process, amending budget classifications to conform to international best practices, and introducing a medium term expenditure framework (MTEF) in the annual budget process (GoI, 2003). Changes in budget classifications were intended to facilitate the implementation of performance-based budgeting, to provide an objective and proportional portraits regarding government activities, to maintain consistency with the public sector accounting standards, as well as to facilitate the presentation and to enhance the credibility of government financial statistics. The law also mandated the integration

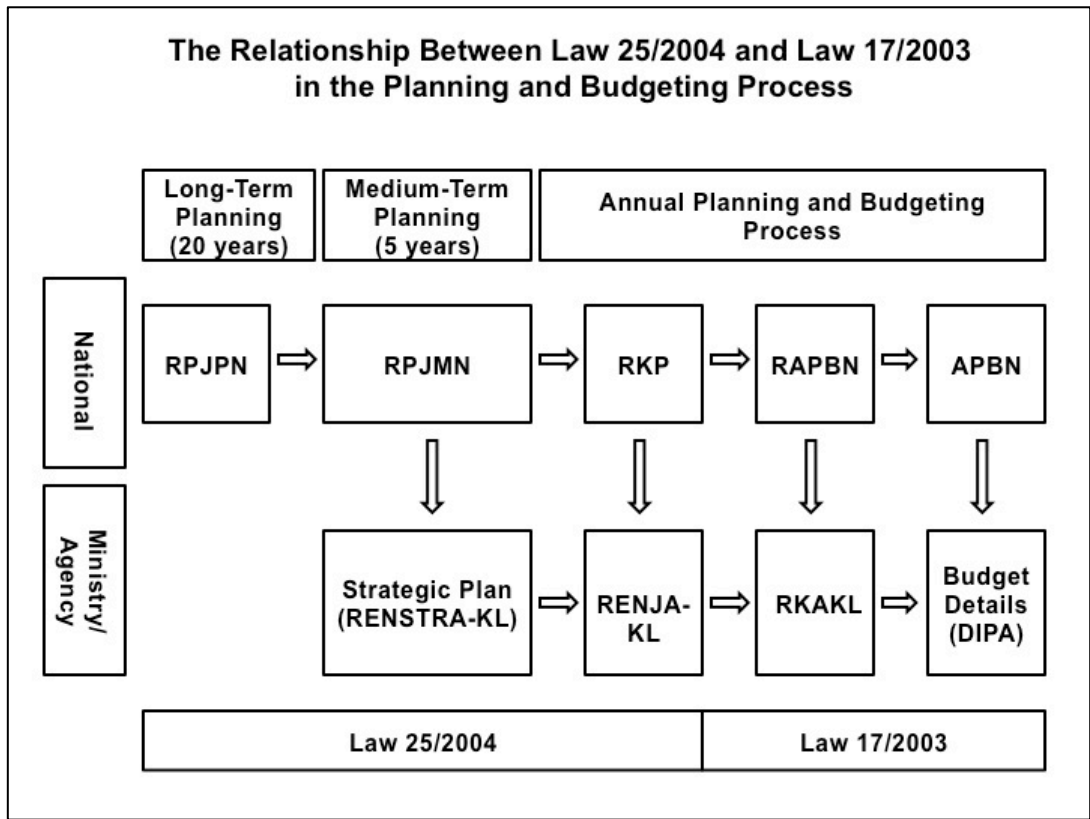
of the routine budget and the development budget. The separation of the routine budget and the development budget, which was originally intended to give emphasis on the importance of the development budget had in practice raised the chances of budget duplication, overlapping, and irregularities. The recent developments also required the implementation of a Medium Term Expenditure Framework (MTEF) in the annual budgeting system (GoI, 2003).

The enactment of the State Finance Law 17/2003 was then followed by the enactment of the State Planning Law 25/2004 concerning the system of the national development planning. The law specified the national development planning process, the preparation and approval of plans, and the role of the Ministry of Planning/National Development Planning Agency (Bappenas) (Blondal, Hawkesworth, Choi, 2009, p. 6). The law also specifies the National Development Planning System as an integrated development planning procedure with the aim to produce long-term, medium-term, and annual development plans which will be implemented by every government entity involving citizens in central and local governments. According to the law, the planning process comprises four components: a political process, a technocratic process, a participative process, and a bottom-up and top-down process (GoI, 2004). It was envisaged that this law aimed to improve the roles of the Ministry of Planning/Bappenas by integrating the planning and budgeting system, and strengthening its role in coordinating monitoring, evaluation, and performance accountability (Ministry of Planning (MoP), 2014, p. II-3).

The State Finance Law 17/2003 and the System of National Development Planning Law 25/2004 aim to connect the planning process with the budgeting process. While

Law 25/2004 regulates the planning process, Law 17/2003 regulates the budgeting process. Figure 3.1 summarises the relationship between Law 25/2004 and Law 17/2003 in the planning process and budgeting process.

**Figure 3.1: The Relationship Between Law 25/2004 and Law 17/2003**



Source: Derived from the Directorate of the State Budget Preparation, 2014.

Looking at Figure 3.1, the planning process involves the preparation of three planning documents at the national level: the long-term national plan document (RPJPN), the medium-term national plan (RJPMN), and the annual government work-plan (RKP). RPJPN is a long-term planning document for a twenty-year period that consists of vision, mission, and national development strategies, enacted by law. The second document is RPJMN, a national medium-term planning document for a five-year period that covers programmes of the elected President. RPJPN guides the preparation of RPJMN. The elected President issues the RPJMN document by enacting a

presidential regulation. The third document is RKP, the annual government work-plan that implements RPJMN. Every year, usually in May, before the next year's budget begins, the President issues a presidential regulation regarding the RKP (Directorate of the State Budget Preparation, 2014, p. 42). The Minister of Planning is responsible for preparing the drafts of RPJPN, RPJMN, and RKP (GoI, 2004).

As can be seen in Figure 3.1, at the line ministry/agency level, there are two planning documents: the strategic plan of the line ministry/agency (RENSTRA-KL), and the annual work-plan of the line ministry/agency (RENJA-KL). RENSTRA-KL is a five-year period planning document that was prepared using RPJMN as its guidance. RENSTRA-KL consists of vision, mission, strategies and policies of line ministries/agencies. It also covers indicative programmes and activities of ministries/agencies. RENSTRA-KL, and the annual government work-plan (RKP) guide the preparation of RENJA-KL. RENJA-KL contains the policies, programmes, and activities of the government (Directorate of the State Budget Preparation, 2014, p. 43).

After the preparation of RKP and RENJA-KL, the process continues with the budgeting process. According to Law 17/2003, the budgeting process involves the preparation of the state budget (APBN) at the national level and the preparation of the work plan and budget documents (RKAKL) at the ministry/agency level (GoI, 2003). The planning documents, RKP and RENJA-KL in particular, guide the annual budget preparation. At the national level, RKP guides the preparation of the state budget draft (RAPBN). RENJA-KL guides each line ministry/agency in preparing its RKA-KL (Directorate of the State Budget Preparation, 2014, p. 43).

### **3.4. The Implementation of Performance-Based Budgeting 2005-2009**

As mandated by the State Finance Law 17/2003, the Government of Indonesia started to introduce performance-based budgeting in 2005. This section provides a summary of the implementation of performance-based budgeting over the period of 2005-2009 and presents several problems of the implementation were identified by the government.

The implementation of performance-based budgeting in Indonesia for the period 2005-2009 was regarded as ‘the introduction phase’. This phase focused on the implementation of unified budgeting, integrating the routine budget and the development budget. The unification of the budgeting system was followed by the integration of three different budget execution documents (namely DIK, DIP, and SKO) into one budget execution document (DIPA). Furthermore, the budgeting system categorised the budget into three classifications: functions, organisations, and expenditures. This phase also emphasized that the spending units in line ministries/agencies acted as the ones that hold accountability of their activities (MoF, 2011a, p. 102).

In summary, the implementation of performance-based budgeting 2005-2009 can be described as follows (Directorate General of Budget, 2012, pp. 77-78):

- In 2005, line ministries/agencies were asked to provide performance targets (outputs) along with the budget details (inputs) in their work plan and budget documents (RKAKL).
- In 2006, cost standards were introduced as part of performance-based budgeting.
- In 2007, there was an initiative to synchronize the activities of line

ministries/agencies with programmes stated in the government work-plan (RKP).

Line ministries/agencies were also requested to identify their outputs.

- In 2008, the implementation of performance-based budgeting was aimed at ensuring there was connection between the government work plan (RKP) and the annual work-plan of line ministries/agencies (RENJA-KL) and the work plan and budget documents (RKAKL).

Although Law 17/2003 has mandated the implementation of performance-based budgeting since 2003 and it had been introduced in 2005 (Directorate General of Budget, 2012, p. 77), in practice performance-based budgeting has not been fully implemented in the planning and budgeting process over the years 2005-2009. The government itself identified several problems with regards to the implementation of performance-based budgeting in this period, as follows (MoF and MoP, 2009a, p. 2):

- The existing programmes and activities could not be used as tools for measuring the effectiveness of development targets and efficiency of expenditures.
- The existing programmes and activities could not be used as tools for measuring performance accountability of spending units in line ministries/agencies.
- On an operational level, there were question marks regarding the connection between planning documents and budget documents.

In detail, several problems concerning the structures of the existing programmes and activities can be set out as follows (MoF and MoP, 2009b, pp. 3-5):

- The existing programmes were formed with an input-based approach using a line-item budget. The programmes were not formed based on an output-outcome oriented approach.



- The existing programmes and performance indicators could not be used as tools to measure the effectiveness of the development goals, spending efficiency, and performance accountability (GoI, 2009). The reason for this problem is that the programmes generally cut across several ministries and the performance indicators were not always relevant for the particular activities concerned (Allen *et al.*, 2007).
- The existing programmes were used by several line ministries/agencies without any clear working arrangements and performance indicators.
- Some programmes were too narrow and others were too broad. It was difficult to identify outputs for the “too broad” programmes.
- There were too many activities under certain programmes that were not relevant to those programmes.
- There was no separation between programmes that covered only internal activities of line ministries/agencies and programmes that aimed to serve the public interest.

Triggered by the problems found during the implementation of performance-based budgeting in the period of 2005-2009, the government then launched the next phase of planning and budgeting reform in mid 2009.

### **3.5. The Planning and Budgeting Reform of 2009**

Led by the Ministry of Planning and the Ministry of Finance (MOF), the government launched a further planning and budgeting reform in June 2009. The government introduced two key initiatives. Firstly, it rearranged the structures of programmes and activities in line ministries/agencies. It was required that the programmes and

activities must be complemented by performance indicators. Secondly, it restructured the planning and budgeting process with the aim of ensuring that there is a connection between the planning and the budget documents at national and ministerial level, supported by an integrated planning and budgeting system (GoI, 2009).

The commitment of the government to reform its planning and budgeting process was then included in the National Medium-Term Development Plan (RPJMN, 2010-2014). As part of RPJMN 2010-2014, the government indicated that the implementation of performance-based budgeting aimed to improve the quality of public services, to improve the effectiveness and the accountability of ministries/agencies, and to combat corruption (GoI, 2010b, p. I-39). The government also specified that the implementation of performance-based budgeting should be accompanied by the use of a medium-term expenditure framework (MTEF). The government also promised to strengthen the monitoring and evaluation mechanism in the planning and budgeting cycle (GoI, 2010b, pp. I-87-I-88).

The reform continued with the piloting of performance-based budgeting in the Ministry of Finance as a line ministry in 2009. The piloting then extended, in 2010, to five other ministries: the Ministry of National Education, the Ministry of Health, the Ministry of Public-Works, the Ministry of Agriculture, and the Ministry of Planning (MoF, 2009, p. 128).

The implementation of performance-based budgeting and the medium term expenditure framework with new structures of programmes and activities for all line ministries/agencies was started in fiscal year 2011 (Directorate General of Budget,

2012, p. 78). The government required that the annual work plans and budget documents (RKAKL) of every line ministry/agency must incorporate relevant performance information i.e. performance (outputs and outcomes) targets. It has also required that past and planned performance information, among other factors, should be used in the budget allocation process (GoI, 2010a). The past performance information used in the budget preparation process is the set of results from the performance measurement system of RKAKL (RKAKL performance scores, hereafter) based on the Minister of Finance Regulation 249/2011. The planned performance information consists of performance targets proposed by line ministries. The Ministry of Finance has the aim that performance information in the Indonesian budgeting system should not only be used for performance reporting purposes but also should be used for budgetary decision-making (Directorate General of Budget, 2012, p. 78).

As part of the reform process, the government then issued Government Regulation 90/2010 concerning the preparation of the work plans and budget documents of line ministries/agencies (RKAKL). The significance of this regulation for performance-based budgeting is presented in the next section.

### **3.6. The Significance of Government Regulation 90/2010 for Performance-Based Budgeting**

As the main law that regulates the management of state finances, the State Finance Law 17/2003 mandated the government to set out a Government Regulation that guides the preparation of work plans and budget documents of line ministries/agencies (RKAKLs) using three approaches: performance-based, unified-

budgeting, and the use of a medium-term expenditure framework (GoI, 2003).

One year after the Law 17/2033 was issued, the Government then set out the Government Regulation 21/2004 as the basis for line ministries/agencies in preparing RKAKLs. The regulation then largely served as 'an introduction phase' for line ministries/agencies regarding the budget preparation using the three approaches (Directorate General of Budget, 2012, p. 103).

Five years after its establishment, the regulation began to lose relevance to the recent condition of the budgeting process. Therefore, the government decided to replace the regulation with the Government Regulation 90/2010 (the Directorate General of Budget, 2012, p.103). The fundamental changes set out in the new regulation are as follows (GoI, 2010a):

- The introduction of the rolling budget concept that classified two government or line ministries/agencies policies into two components: the current policies and 'new initiatives'.
- The revision of the budget preparation process from the preparation of RKAKLs to the approval of budget execution documents (DIPA).
- There were new provisions for the budget amendment process.
- There were new provisions for the establishment of performance measurement and performance evaluation (RKAKL performance scores) as well as the implementation of an integrated information system.

Government Regulation 90/2010 is a very important regulation in relation to the implementation of performance-based budgeting. This study identifies seven articles in the regulation that have a close connection with the implementation of

performance-based budgeting. The seven articles are as follows (GoI, 2010a):

- Article 5 stipulates that the preparation of the work plans and budget documents of line ministries/agencies (RKAKLs) must use three approaches: a medium-term expenditure framework unified budgeting, and performance-based budgeting. The RKAKLs are prepared by using performance indicators, cost standards, and performance evaluation.
- Article 6 stipulates that RKAKLs include performance information (in the form of programmes, activities, and performance targets) and budget details.
- Article 7 stipulates that in relation to the preparation of the indicative budget ceilings, the Ministry of Planning and the Ministry of Finance should evaluate current programmes and activities as well as new initiative proposals by line ministries/agencies. The Ministry of Planning coordinates the evaluation process.
- Article 9 stipulates that the Ministry of Finance prepares the budget ceilings based on fiscal capacity, the indicative budget ceilings, the work plans of line ministries/agencies (RENJA-KL), and considering the results of performance evaluation of line ministries/agencies (RKAKLs performance scores).
- Article 10 stipulates that the Ministry of Finance coordinates the review of RKAKL documents for establishing the budget allocations. The review assesses the sufficiency of the relationship between performance targets and the budget amount. It also assesses the consistency between line ministries/agencies' performance targets and the government work plan (RKP).
- Article 19 stipulates that each line ministry/agency carries out performance measurement and evaluation of the execution of RKAKL in the past and

current year. The results of the performance measurement and evaluation should be reported to the Ministry of Finance and the Ministry of Planning. Further regulation concerning performance measurement and evaluation will be regulated by a Minister of Finance's Regulation.

- Article 20 stipulates that the Ministry of Finance and the Ministry of Planning should perform a monitoring of line ministries/agencies' performance achievement. The results of monitoring and evaluation could be used as one of the considerations in the implementation of reward and punishment in determining budget ceilings of line ministries/agencies.

### **3.7 The Features of Performance-Based Budgeting in Indonesia**

In describing the features of performance-based budgeting in Indonesia, this study relies on five books issued by the Ministry of Planning and the Ministry of Finance that guided the planning and budgeting reforms in 2009, the Government Regulation 90/2010 and the Minister of Finance's regulations concerning the guidance of the preparation and the review of work plans and budgets documents of line ministries/agencies (RKAKL).

Performance-based budgeting in Indonesia is defined as an approach in the planning and budgeting system of government expenditures that clearly shows the relationship between budget allocations and performance targets, and considering efficiency in achieving the targets. Performance is defined as outputs produced through activities and outcomes achieved in programmes (GoI, 2014, p. 1).

As mandated by the State Finance Law 17/2003, the implementation of performance-based budgeting is accompanied by the implementation of unified budgeting and the implementation of medium term expenditure framework (MTEF) (GoI, 2010a).

The implementation of performance-based budgeting includes three main principles (GoI, 2010a):

- a. 'Money follows function'. This means that the budget is allocated based on programmes and activities that conform to the roles of line ministries/agencies/spending units and their organisational structures.
- b. 'Output and outcome oriented'. This means that the budget is allocated aiming to produce or to achieve specific outputs and outcomes.
- c. 'Let the managers manage'. This means that there is flexibility in managing the budget with accountability.

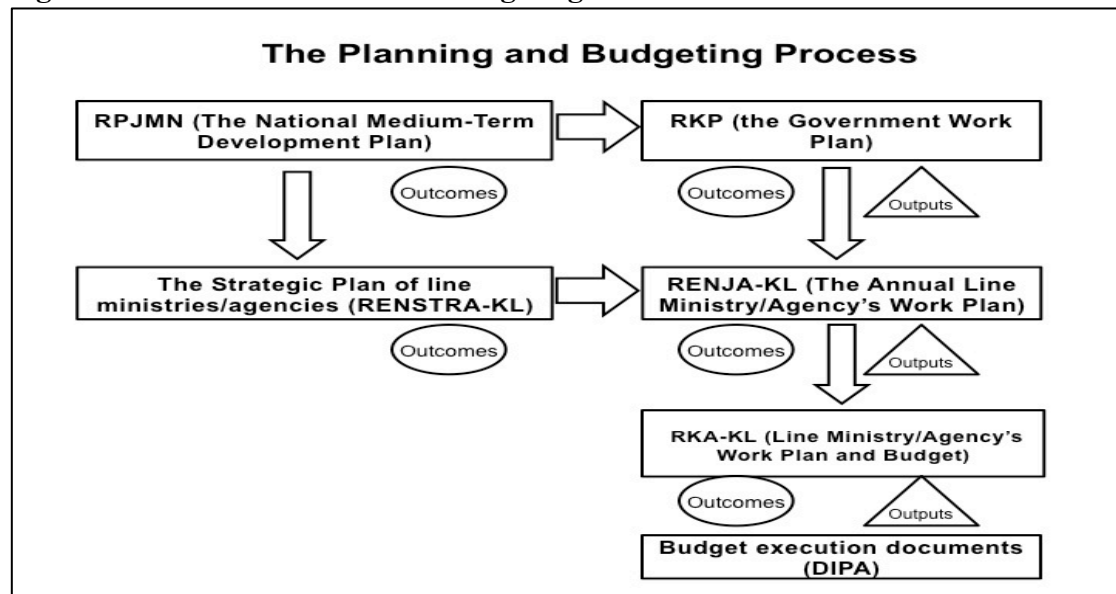
With these three principles, the implementation of performance-based budgeting is aimed at (GoI, 2014, pp. 1-2):

- a. Presenting direct linkages between performance targets and budget.
- b. Improving operational efficiency and transparency in the budgeting process.
- c. Improving flexibility and accountability of spending units in managing the budget.

Figure 3.2 illustrates the performance-based budgeting framework at the national and at line ministry/agency level. The government work plan (RKP) contains programmes and activities of the government and the national outcomes. RKP is implemented by line ministries/agencies through their annual work plan (RENJA-KL) and the work

plans and budget documents (RKAKL) to produce outcomes at the ministry/agency level. The outcomes of line ministries/agencies support the achievement of national outcomes (MoF and MoP, 2009a).

**Figure 3.2: Performance-Based Budgeting Framework at the National Level**



Source: Derived from MoF and MoP (2009a)

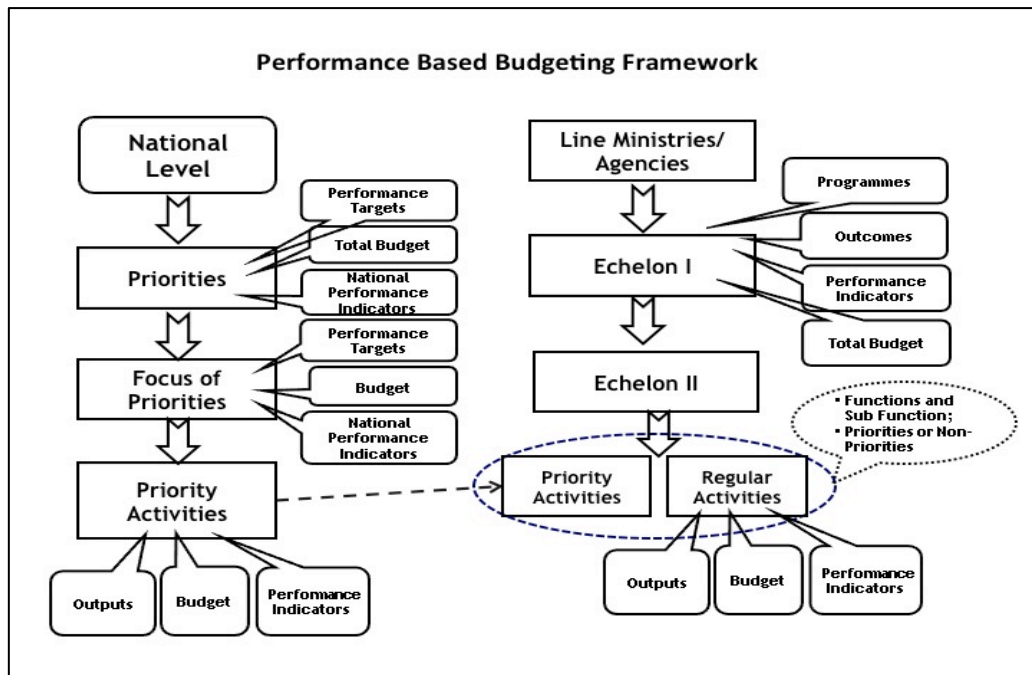
Figure 3.3 describes the performance-based budgeting framework at the national level and at the ministry/agency level in more detail. The implementation of performance-based budgeting at the national level can be described as follows (GoI, 2014, p. 2):

- The government determines the objectives of national development, in the form of priorities and focus of priorities, in the RKP of a particular budget year.
- Based on these objectives, the government defines priority activities and/or regular activities, based on the roles of each line ministry/agency, performance indicators and outputs. The government then calculates the budget needed, considering its fiscal capacity.



- c. Each line ministry/agency (and its spending units) will implement those government objectives in the form of the Programmes and Activities that in line with the roles of each line ministry/agency.

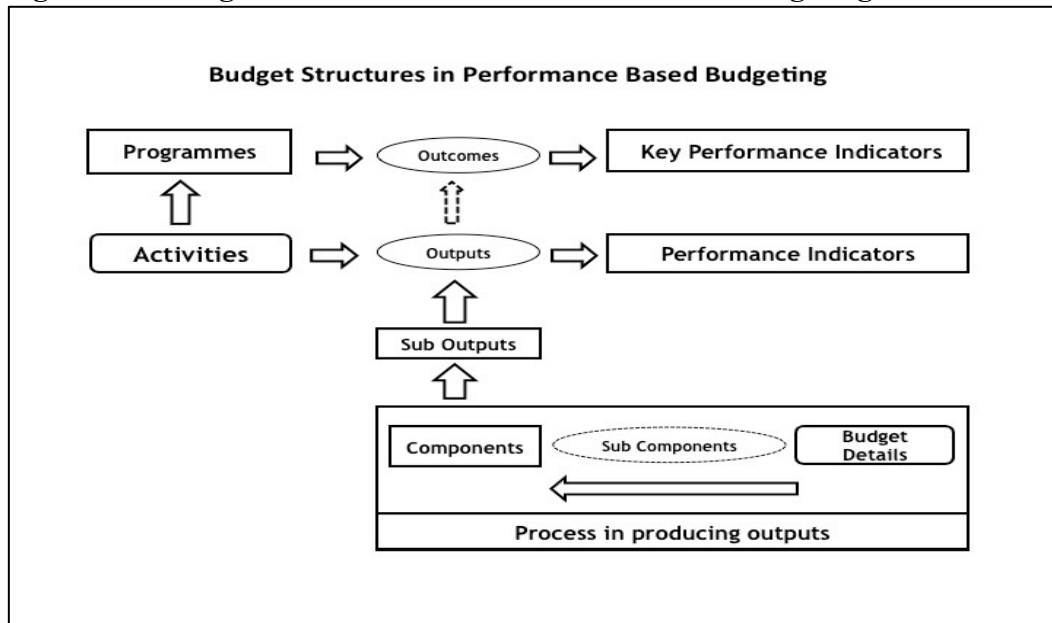
**Figure 3.3: The Detail of A Performance-Based Budgeting Framework in Indonesia**



Source: Derived from GoI (2014).

Looking at Figure 3.3, at the ministry/agency level, based on its strategic plan (RENSTRA), each Echelon I in each ministry/agency defines a programme, key performance indicators of the programme, and outcomes. The programme then will be cascaded into activities in line with the organisational level of Echelon II in each Echelon I. Each Echelon II defines performance indicators and outputs of its activity. Finally, the programmes, activities, all performance indicators, outputs, and outcomes are incorporated in the planning and budgeting documents (RENJA-KL, RKAKL and DIPA) (GoI, 2014, p. 3). A summary of the budget structures in performance-based budgeting can be seen in Figure 3.4.

**Figure 3.4: Budget Structures in Performance-Based Budgeting**



Source: Derived from GoI (2014)

### **3.8 Performance Measurement and Evaluation (RKAKL Performance Scores) according to the Minister of Finance Regulation 249/2011**

This section discusses the performance measurement and evaluation (RKAKL performance scores) that should be used by government officials and practitioners in the planning and budgeting process.

Government Regulation 90/2010 stipulates that line ministries/agencies, in preparing the work plans and budget documents (RKAKLs), use three instruments: performance indicators, cost standards, and performance evaluation. Furthermore, Article 19 of the regulation stipulates that each line ministry/agency carries out performance measurement and evaluation of past year RKAKL's execution and current year RKAKL's execution. Line ministries/agencies report the results of measurement and evaluation to the Ministry of Finance and the Ministry of Planning. According to the Government Regulation 90/2010, the Minister of Finance regulates this performance

measurement and evaluation (GoI, 2010a).

In 2011, responding to the mandate of the Government Regulation 90/2010, the Minister of Finance enacted the Minister of Finance Regulation 249/2011 concerning the Performance Measurement and Evaluation of the RKAKL's execution. According to this regulation, the Performance Measurement and Evaluation of the RKA-KL's execution is the process of producing information on the performance achievement of the performance targets stated in RKA-KL documents (GoI, 2011).

The regulation instructs each line ministry/agency to conduct performance measurement and evaluation of the past and current year's programmes within the ministry/agency. There are two purposes of performance measurement and evaluation (GoI, 2011):

- a. Accountability. The evaluation is aimed at giving evidence and accountability to the public that budgets are spent in line with the public interest.
- b. Improvement. The evaluation is intended to identify factors that support and/or hamper the RKAKLs execution. The results of the evaluation are used as inputs in preparing and executing RKAKLs for the following year.

Performance measurement and evaluation consists of three aspects: the implementation aspect, the benefit aspect, and the contextual aspect (GoI, 2011). Performance measurement and evaluation for the implementation aspect is conducted to produce performance information with regard to the execution of activities and the achievement of outputs. Four components are measured in this respect: budget spending, consistency between planning and execution, outputs achievement, and

efficiency. Performance measurement and evaluation for the benefit aspect is conducted to produce information about changes in society or stakeholders as recipients of outputs achieved by the programmes or activities. The indicators measured in this performance evaluation are the achievement of the key performance indicators or outcomes. Performance evaluation for the contextual aspect is conducted to produce information on whether the inputs, activities, outputs, and outcomes are relevant to the current situation, including current government policies. Performance evaluation of the implementation aspect and the benefit aspect is conducted every year. Performance evaluation for the contextual aspect is carried out at least once a year or it is carried out as necessary in consideration of the current situation. Therefore, the process of performance measurement and performance evaluation is conducted only for the implementation aspect and the benefit aspect.

Performance measurement can be defined as a process to produce performance scores for every indicator by comparing its achievement with its targets (GoI, 2011). Measurement for the implementation aspect is conducted using the formulae determined in the Minister of Finance Regulation 249/2011. For simplicity, this thesis uses the term “RKAKL Performance Scores” to refer to the results of performance measurement of the work plan and the budget documents of line ministries/agencies (RKAKLs). The summary of the formulae, weighted for each component, is provided in Table 3.1.

**Table 3.1: Formulae Used in Calculating RKAKL Performance Scores (the Implementation Aspect)**

Components measured for the implementation aspect	Formulae	Weight (%)
Budget spending	Comparing budget spending with budget allocations.	9.70
Consistency between planning and execution	Measuring the consistency of budget disbursements by comparing the monthly budget disbursements with the monthly planned budget disbursements.	18.20
Outputs achievement	Comparing the achievement of outputs with the targets.	43.50
Efficiency	Comparing budget spending per output with budget allocation per output.	28.60
		100.00

Source: (GoI, 2011).

The measurement of the achievement of outcomes for the benefit aspect is conducted by comparing the achievement of key performance indicators with the targets. The total performance scores are calculated using the following weights for each aspect (GoI, 2011). The weight for each component is set out in Table 3.2.

**Table 3.2: Formulae Used in Calculating Total RKAKL Performance Scores**

Aspect	Weighted (%)	Weighted for the first-two years since the enactment of the regulation (%)
The implementation aspect	33.30	100.00
The benefit aspect	66.70	0.00
Total	100.00	100.00

Source: (GoI, 2011)

The regulation stipulated that for the first two years since the enactment of the Minister of Finance Regulation 249/2011, the weight for the benefit aspect is 0%. Therefore, in practice, the RKAKL performance scores are only calculated using the implementation aspect. The RKAKL performance scores are classified into five categories, as can be seen in Table 3.3.

**Table 3.3: Category of RKAKL Performance Scores**

Performance scores	Category
<90% to 100%	Very good
<80% to 90%	Good
<60% to 80%	Normal
<50% to 60%	Poor
To 50%	Very Poor

Source: (GoI, 2011)

As mandated by Government Regulation 90/2010, each line ministry/agency should carry out performance measurement and evaluation of the execution of RKAKL in the past and current year using the Minister of Finance Regulation 249/2011. The results of performance measurement or the RKAKL performance scores should then be used by the following actors in the planning and budgeting process (GoI, 2010a):

- Line ministries/agencies for preparing the work plans and budget documents (RKAKLs).
- The Ministry of Planning and the Ministry of Finance for preparing the indicative budget ceilings.
- The Ministry of Finance for preparing the budget ceilings.
- The Ministry of Finance and the Ministry of Planning to monitor line ministries/agencies' performance achievement. The results of monitoring and evaluation could be used as one of the considerations in the implementation of reward and punishment in determining budget ceilings of line ministries/agencies.

### **3.9 The Four Key Actors in the Planning and Budgeting Process**

The annual planning and budgeting process involves government officials and practitioners from four key institutions: the Ministry of Planning, the Directorate General of Budget in the Ministry of Finance, line ministries/agencies that receive budget allocations, and the Parliament. This section provides a summary of the roles and the functions of each institution in the planning and budgeting process, including the complexity of arrangements between offices/directorates in each institution in the planning and budgeting process.

#### **3.9.1 The Ministry of Planning**

The Ministry of National Development Planning, or the Ministry of Planning (MOP) in short, is headed by a Minister who is also the Head of Bappenas (the National Development Planning Agency). The two terminologies, the Ministry of Planning and Bappenas, can be used interchangeably. According to the Presidential Regulation 82/2007, all units and resources in Bappenas also carry out the duties and functions of the Ministry of Planning (GoI, 2007a). This study prefers to use the term Ministry of Planning (MOP) for this ministry/agency.

The Ministry of Planning is responsible for performing national development planning. Specifically, it performs the following functions:

- a. Preparing the national development plan.
- b. Formulating policies in the national development planning area.
- c. Assessing government policies in the national development planning area.
- d. Preparing development programmes to support the state budget (APBN) formulation, together with the Ministry of Finance.

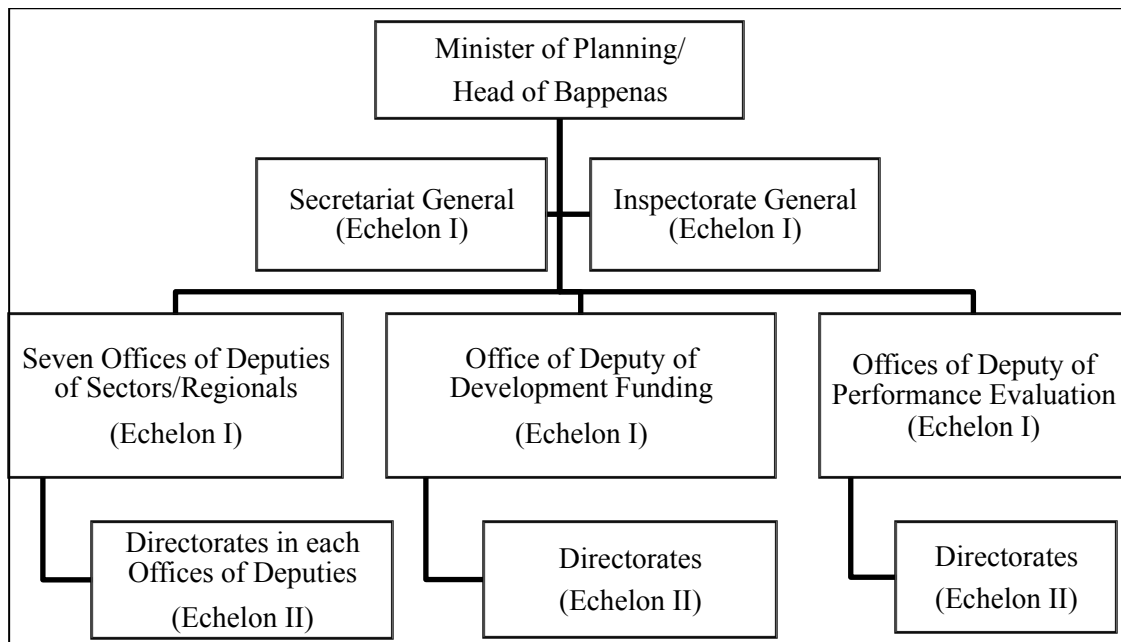
- e. Coordinating, facilitating, and finding sources of financing from domestic and overseas and allocating budgets for developments in coordination with other ministries.
- f. Facilitating and guiding other government institutions in national development planning area.

According to the Minister of Planning Regulation 005/M.PPN/10/2007, the Ministry of Planning consists of eleven departments as the Echelon I units: the main secretariat, the main inspectorate, and nine offices of deputies. The main secretariat and inspectorate manage the internal functions of the ministry. The nine offices of deputies are responsible for managing the national development planning as well as managing the planning and budgeting process (GoI, 2007b).

In relation to the planning process, the nine offices in the Ministry of Planning can be classified into three groups. This study follows the classification used by the Ministry of Planning through the Minister of Planning Regulation 008/M.PPN/11/2007 concerning the Guidance in Preparing the Government Work Plan (RKP): the Office of Deputy of Development Funding; the Office of Deputy of Performance Evaluation; and seven Offices of Deputy of Sectors/Regionals. The simplified version of the organisation chart of the Ministry of Planning can be seen in Figure 3.5



**Figure 3.5: Organisation Chart of the Ministry of Planning**



The relationship between the Office of the Deputy of Development Funding and other Offices of Deputies is important, particularly in preparing the indicative budget ceilings for line ministries/agencies. Although the Office of the Deputy of Development Funding is responsible for coordinating the preparation of indicative budget ceilings with the Ministry of Finance, the preparation of the indicative budget ceilings within the Ministry of Planning involves all seven Offices of Deputy of Sectors/Regionals that responsible for managing the planning process of line ministries/agencies under their authority. They provide information regarding prioritised programmes and activities that are to be funded in each line ministry/agency. In addition, the Office of the Deputy of Performance Evaluation provides an evaluation of the achievement of prioritised activities in the government work plan (RKP) (GoI, 2007c).

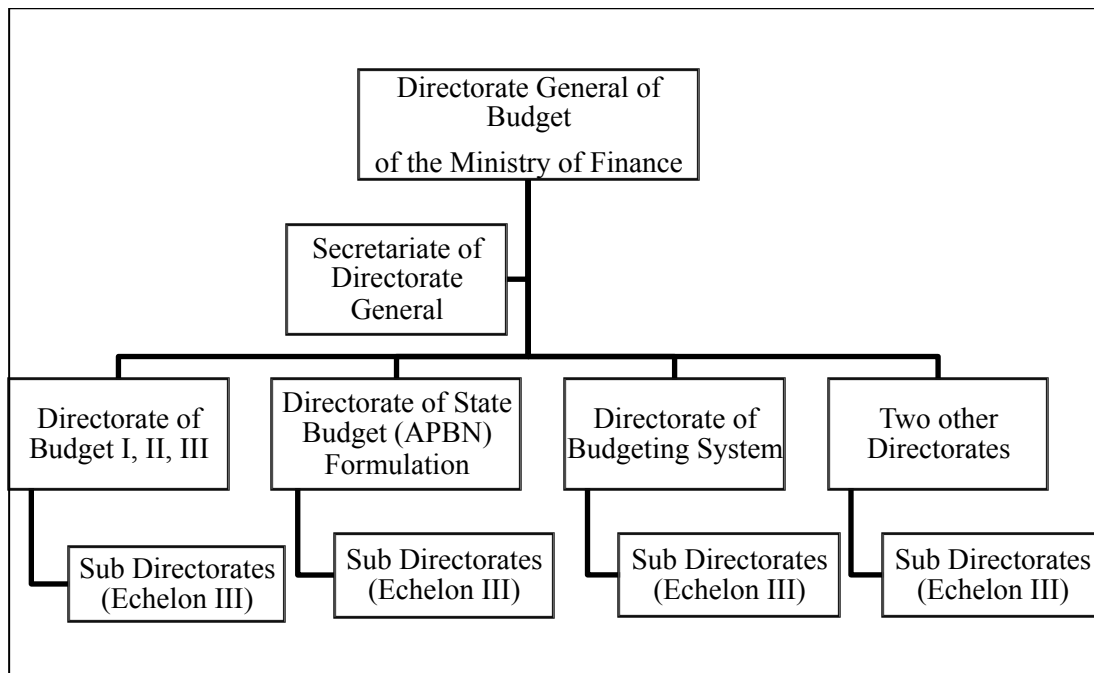
The process of preparation of the indicative budget ceilings in the Ministry of Planning is carried out in internal consultation meetings. The purpose of these internal consultation meetings is to improve the quality of planning and budgeting, to clarify the distribution of national priorities into activities for every line ministry/agency involved, as well as to assess the budget needed for those activities, and to improve the transparency of the process of preparing indicative ceilings (GoI, 2007c).

### **3.9.2 The Directorate General of Budget in the Ministry of Finance**

The Directorate General of Budget (DGB) is one of eleven Echelon I units in the Ministry of Finance. It has a central role in formulating and implementing policies and standards in the budgeting area. In carrying out its mandates in the budgeting area, the Directorate General of Budget conducts the following functions: policy formulation, policy implementation, standards and procedures preparation, technical assistance, and evaluation.

The organisational structure of the Directorate General of Budget consists of eight units of Echelon II: the Secretariat of the Directorate-General; the Directorate of State Budget (APBN) Preparation; Directorate of Budget I-III, Directorate of Non-Taxes Revenue; Directorate of Budgeting System; and Directorate for Harmonisation of Budgeting Regulations (GoI, 2010c). A simplified version of the organisation chart of the Directorate General of Budget can be seen in Figure 3.6.

**Figure 3.6 Organisation Chart of the Directorate General of Budget**



In relation to the budget preparation process, the Directorate General of Budget has roles in: preparing the State Budget (APBN) and its amendments, allocating a budget for line ministries/agencies, optimising the non-tax revenues, determining the resource envelope, determining the indicative budget ceilings, determining budget ceilings, determining budget allocations, determining budget amendments, and preparing budgeting policies (Directorate General of Budget, 2015, p. 4).

In the Directorate General of Budget, there are five directorates that are closely related in formulating and determining the indicative budget ceilings, the budget ceilings, and the budget allocations. They are the Directorate of the State Budget (APBN) Preparation, the Directorate of Budget I, II, and III, and the Directorate of the Budgeting System (GoI, 2010c).

The Directorate of the State Budget Preparation has a main function in preparing the state budget (APBN) that includes:

- a. Formulating the macroeconomic assumptions and revenue targets, medium-term budgeting framework, analysis of the economic situation, as well as analysing the realisation of revenue targets.
- b. Formulating, allocating, monitoring, and evaluating both annual and medium-term expenditures budget for personnel, material, and capital and other expenditures.
- c. Projecting, synchronizing, monitoring and evaluating both annual and medium term expenditures budget for line ministries, agencies, the education sector and other priorities.
- d. Projecting, allocating, monitoring and evaluating both annual and medium-term plans for interest payments, subsidies, and transfers to local governments.
- e. Projecting, allocating, monitoring and evaluating both annual and medium-term plans for budget financing and fiscal risks (GoI, 2010c).

The Directorate of the Budgeting System has crucial roles in the implementation of performance-based budgeting. It has responsibility for developing and conducting policies, standards, and procedures in the budgeting system. It is responsible for publishing the annual cost standards used in the budgeting process. Another important function of this directorate is the responsibility for providing guidance for measuring performance, and monitoring and evaluating performance achieved. It conducts performance analysis and evaluation. This directorate also manages the budgeting information system and provides technical assistance in information technology (GoI, 2010c).

The Directorates of Budget I, II, and III have similar functions between them. The only difference is that each Directorate has the responsibility for managing the annual

budgeting process for specific line ministries and or agencies. In detail, each directorate carries out the following functions:

- a. Preparing materials for allocating and evaluating indicative budget ceilings, budget ceilings, budget allocations and additional budgets for line ministries, agencies, subsidies, and other units.
- b. Reviewing special cost standards proposed by line ministries/agencies.
- c. Conducting reviews of the RKAKLs and technical assistance for line ministries in preparing the RKAKLs.
- d. Consolidating all RKAKLs and coordinating the consolidation process with other directorates.
- e. Preparing budget execution documents (SAPSK) and facilitating the revision of budget execution documents (DIPA).
- f. Conducting the budget monitoring and evaluation process (GoI, 2010c).

### **3.9.3 Line Ministries/Agencies**

This section provides a summary of the line ministries/agencies in the Indonesian central government that receive budget allocations from the government. Line ministries/agencies are established to perform specific duties that are mandated by the Indonesian Constitution of 1945 and other laws and regulations (GoI, 2014). Until 2014, there were eighty-six line ministries/agencies receiving budget portions/allocation from the state budget (Directorate of the State Budget Preparation, 2014, p. 212). It is not easy to give a full coverage of the types or the organisational structures of all line ministries/agencies. However, for simplicity, this thesis splits line ministries/agencies into three categories: the state ministries, the non-ministerial government institutions (LPNK), and the state institutions.

The Indonesian Constitution of 1945 stipulates that the President, in managing the government, is assisted by state ministers. The state ministers are responsible for managing particular government functions or affairs. The formation, amendment or dissolution of ministries is regulated by the law (GoI, 2008). According to Law 39/2008 concerning the State Ministries, each ministry manages particular government affairs that are categorised into three types (GoI, 2008):

- a. Government affairs that are directly mentioned in the Indonesian Constitution of 1945. These include home affairs, foreign affairs, and defence affairs.
- b. Government functions that are mentioned in the Indonesian Constitution of 1945. The affairs that fall into this category are religious, law, human rights, education, cultural affairs, health, social affairs, manpower, industry, trade, mining, energy, civil work, transmigration, transportation, information, communication, agriculture, plantations, forestry, farming, maritime, and fisheries.
- c. Government affairs for managing, coordinating, and synchronising government programmes. These affairs consist of national development, the state apparatus, the state secretariat, state-owned enterprises, land, population, environment, science, technology, investment, cooperatives, small and medium enterprises, tourism, empowerment of women, youth, sports, housing, and development of regional or disadvantaged areas

Those three different types of ministries have different organisation structures. According to Law 39/2008, the typical organisation structures for different types of ministries can be seen in Table 3.4. According to Law 39/2008, the number of ministries that can be formed by the President is limited to thirty four (GoI, 2008).

**Table 3.4: Organisational Structures of Line Ministries**

Role/Function	Type A	Type B	Type C
Leader	Minister	Minister	Minister
Assistant of the leader	Secretariat General	Secretariat General	State Secretariat
Executor of the main functions	Directorate General	Directorate General	Office of Deputy
The controller	Inspectorate General	Inspectorate General	Inspectorate
Supporting units	Centre	Centre	Not applicable
Supporting in the regions or abroad	Applicable	Not applicable	Not applicable

In addition to the ministries, there are non-ministerial government institutions (LPNK) or executive agencies, as part of the executive branch of the government. Each agency has a functional relationship with a particular ministry. The specific laws and regulations stipulate the functional relationship between a ministry and an agency (GoI, 2008). One example of an agency would be the Government Procurement Policy Agency (LKPP). This agency is formed by the Presidential Regulation 106/2007 that has a responsibility to develop government policies in public procurement. In conducting its duties, LKPP is coordinated by the Minister of Planning (GoI, 2007d). The organisational structure of LKPP is somewhat smaller than those of the ministries. It consists of the head of agency, the main secretariat, and four offices of deputies with specific roles and duties (GoI, 2007d).

Another type of institution in Indonesia is the state institutions. According to the Indonesian Constitution of 1945 and its amendments, there are seven state institutions that include the People's Consultative Assembly (MPR), the House of Representatives or the Parliament (DPR), the House of Regional Representatives (DPD), the Audit Board of Indonesia (BPK), the Supreme Court (MA), the Constitution Court (MK), and the Judicial Court (KY). In managing its roles and

duties, each state institution is assisted by executives, such as a secretariat, and/or supporting units. For example, BPK is supported by BPK's executives that consist of the Secretariat General, auditing units, supporting units, and others (GoI, 2006).

Each line ministry or each agency consists of organisational units at Echelon I level with names such as the Secretariat General, Directorate General, Inspectorate General, and Offices of Deputies. Each Echelon I consists of spending units of Echelon II. A spending unit performs activities of programme under its Echelon I or other government policies (GoI, 2014). In relation to the preparation of the state budget's draft, each line ministry/agency prepares the work plan and budget document (RKAKL) based on the expected performance targets (GoI, 2003). In each ministry/agency, the planning and budgeting process is coordinated by a bureau/division that has responsibility for managing the planning and budgeting process.

#### **3.9.4 The Parliament (DPR)**

The Parliament (DPR) has an important role in the budgeting process. Every year, the Parliament discusses the macroeconomic frameworks, fiscal policies, general policies and prioritised budgets with the Government (the President) and then the Parliament gives an approval (or disapproval) on the draft of the state budget law, as proposed by the President (GoI, 2003). In practice, the Budget Committee in the Parliament discusses matters related to the state budget with the Government. In the budgeting process, the Budget Committee works together with all commissions in the Parliament. Each commission has representatives in the Budget Committee (Directorate of State Budget Preparation, 2014, pp. 25-30).



Each member of the Parliament is a member of a commission. Commissions are the main working units in the Parliament and they are responsible for oversight of specific government affairs. For example, the Commission III has responsibility for oversight of government affairs on laws, human rights, and defense. In the period of 2009-2014, the Parliament had eleven Commissions (Directorate of State Budget Preparation, 2014, pp. 26-27). In the budgeting process, the commissions in the Parliament are responsible to (1) discuss the draft state budget with the Government; (2) discuss and determine budget allocations of line ministries/agencies; (3) report the results of budget meetings with line ministries/agencies to the Budget Committee for synchronization (Directorate of State Budget Preparation, 2014, pp. 26-28).

### **3.10 The Annual Planning and Budgeting Process**

This section discusses the annual planning and budgeting process and key actors involved in the process, the three stages of budgetary decisions, and the potential uses of performance information in the planning and budgeting process as well as in the budgetary decision making.

#### **3.10.1 The Annual Planning and Budgeting Process**

Although the planning process and the budgeting process are inter-connected, may overlap, and are not easily described, but for simplicity the these two processes are explained here separately and sequentially. The annual planning process can be divided into seven steps (GoI, 2010a):

- a. The President issues policy direction and national development priorities.

- b. Line ministries/agencies evaluate the implementation of their current Programmes. Based on the results of Programmes' evaluation, line ministries/agencies may propose new initiatives and a budget estimate to the Ministry of Planning and the Ministry of Finance (MOF).
- c. The Ministry of Planning and the Ministry of Finance evaluate the current Programmes and review new initiative proposals based on national development priorities and the feasibility of the proposals.
- d. The Ministry of Planning initiates the draft of government work plan (RKP). The Ministry of Planning and the Ministry of Finance issue indicative budget ceilings for each line ministry/agency.
- e. The Ministry of Planning coordinates trilateral meetings between the Ministry of Planning, the Ministry of Finance, and each line ministry/agency. The trilateral meetings are conducted separately for each line ministry/agency. The purposes of the trilateral meeting are as follows: (a) to improve coordination and understanding between the three parties regarding national priorities, fiscal and spending policies; (b) to ensure that all policies would be consistent among planning and budget documents; and (c) to gather commitments in improving the draft of RKP. The meeting discusses the performance targets and budget of prioritised Programmes, Activities, and Outputs; the fulfilment of the operational budget, new initiative proposals and other administrative requirements that should be included in the RENJA-KL of line ministry/agency.
- f. Every line ministry/agency prepares its RENJA-KL based on the indicative budget ceilings and the results or the agreement from the trilateral meeting. Every line ministry submits its RENJA-KL to the Ministry of Planning and the

Ministry of Finance. The Ministry of Planning finalises the draft of RKP that is to be used for a meeting between the government and the Parliament. The Ministry of Finance prepares the budget ceilings for line ministries/agencies.

- g. The government and the Parliament conduct a meeting to discuss the final draft of RKP and then the President approves it.

The budgeting process starts after the issuance of the government work plan (RKP).

The steps of the budgeting process are as follows (GoI, 2010a):

- a. The Ministry of Finance (MOF) is responsible in issuing the budget ceilings of line ministries/agencies.
- b. Line ministries/agencies prepare the annual work plan and budgets (RKAKL) based on the budget ceilings, their work plan (RENJA-KL), the government work plan (RKP), and the cost standards.
- c. Each line ministry discusses its work plans and budgets (RKAKL) with the related commission in the Parliament.
- d. The Ministry of Finance conducts the RKAKL review meetings with the Ministry of Planning which are attended by every spending ministry.
- e. The Ministry of Finance compiles all work plans and budgets (RKAKLs), prepares the financial note, the draft of state budget and the draft of state budget laws to be discussed in the Cabinet meeting.
- f. The Government presents the financial note, the draft of state budget and the draft of state budget law to the Parliament.
- g. The Government and the Parliament conducts budget meetings to discuss the draft of national budget. The results of the budget meetings between the Government and the Parliament may change the total revenues and

expenditures of the national budget draft. It may also change the budget expenditures of line ministries/agencies. The term used in these changes is called “the optimisation of budget ceilings”.

- h. The Ministry of Finance issues the budget allocations for all line ministries/agencies.
- i. Each line ministry adjusts its work plans and budgets (RKA-KL) with regard to the budget allocations given by the Ministry of Finance.
- j. The President enacts the state budget law and issues a Presidential Decree regarding the details of budget allocations for central government.

The summary of the planning and budgeting process, timeline, and products of the process are set out in Table 3.5.

**Table 3.5: Central Government Planning and Budgeting Process**

Stage of Planning and Budgeting Preparation Process	Key Actors Involved	Description of Activities	End Product
Indicative budget ceilings-MOP (March)	The Ministry of Planning (MOP), the Ministry of Finance (MOF), line ministry/agency, President, Cabinet	MOF prepares the fiscal capacity, resource envelope, and amends MTEF. Line ministries propose new initiatives. MOP prepares the draft of government work plan (RKP) and indicative budget ceilings using the resource envelope from MOF.	Indicative Budget Ceilings and the draft of government work plan (RKP)
Trilateral Meeting-MOP (April)	MOP, MOF, line ministry/agency	Line ministry prepares the draft of annual line ministry's work plan (RENJA) based on indicative budget ceilings. Then MOP, MOF, and line ministry officials discuss the draft of RENJA and its budget. MOP finalises RKP.	Annual line ministry's work plan (RENJA). Government-wide work plan (RKP)
Budget Ceilings-MOF (June)	MOF on behalf of President, and Parliament	The preliminary meeting between the government and Parliament to discuss RKP. MOF prepares budget ceilings.	RKP and budget ceilings.
The Budget Meeting-	Line ministry/agency,	Line ministry prepares Line ministry's work plan and budget (RKAKL) based on budget ceilings, discusses it with	Line ministry's work plan and

Stage of Planning and Budgeting Preparation Process	Key Actors Involved	Description of Activities	End Product
Parliament (July)	Parliament	the Parliament and submits it to MOF.	budget (RKAKL)
Budget Review Meeting-MOF (July)	MOF, MOP, line ministry/agency	MOF and MOP review RKKAL of line ministry.	RKAKLs.
Budget Meeting-Parliament (August)	MOF, President, Cabinet meeting, Parliament.	MOF prepares financial notes, draft of state budget, and draft of state budget law; discuss them in cabinet meetings; and submits them to the Parliament.	RKAKL, draft of state budget, draft of state budget Law.
Budget Meeting-Parliament (October)	President, MOF on behalf of government, Parliament	The discussion of draft of state budget, and draft of state budget law.	State budget, and state budget law.
Budget Allocations-MOF (November)	MOF on behalf of President	MOF issues the budget allocation of line ministries.	Budget allocations,
Budget Review Meeting-MOF (November)	MOF, MOP, line ministry/agency	Line ministry prepares the adjustment of RKAKL based on budget allocations, discusses it with the Parliament and submits it to MOF.	RKAKL, state budget, and stated budget law.
Budget execution preparation (December)	MOF, line ministry/agency	Line ministry prepares budget execution document (DIPA) based on RKAKL. Then MOF authorises DIPA.	DIPA.

Source: Author's summary based on Government Regulation 90/2010.

During each stage, line ministries/agencies may also propose additional budgets or new initiatives to the Ministry of Planning and the Ministry of Finance. Line ministries/agencies may also propose additional budgets during the budget meetings with the Parliament.

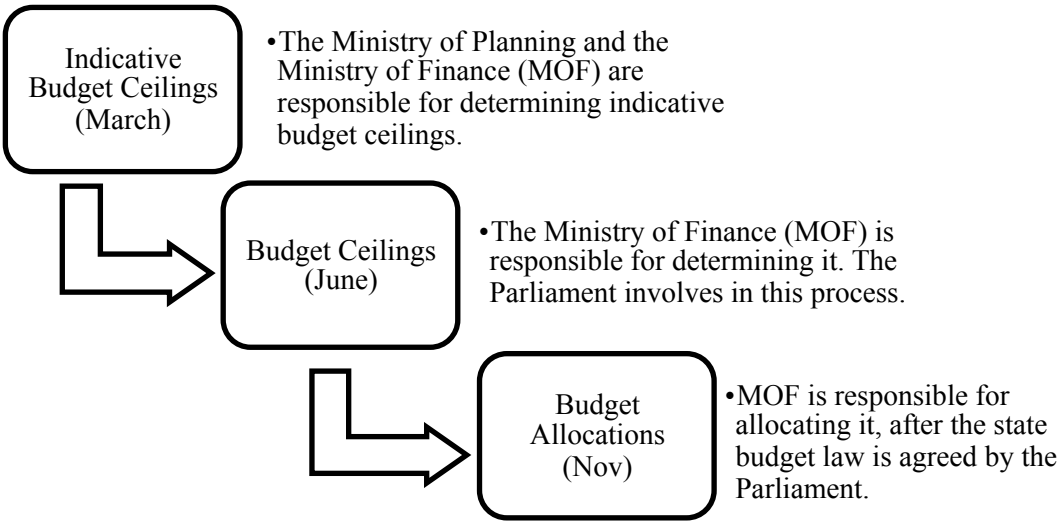
It is worth noting that in reality, the planning and budgeting preparation processes set out in Table 3.5 are more complex, iterative, and involves various divisions and government officials and practitioners in the Ministry of Planning, the Ministry of Finance, line ministries/agencies, and the Parliament. This complex process might (or

might not) contribute to the implementation of performance-based budgeting, particularly the use of performance information in budgetary decision-making.

**3.10.2 Three Budgetary Decision Stages**

According to the Government Regulation 90/2010 as summarised in Table 3.5, there are three budgetary decision-making stages in the Indonesian central government planning and budgeting process, namely: the indicative budget ceilings in March, the budget ceilings in June, and the budget allocations in November. Figure 3.7 provides a summary of the three budgetary decision stages in the planning and budgeting process.

**Figure 3.7: Three Budget Decision Stages**



The Ministry of Planning, in co-operation with the Ministry of Planning, is responsible for formulating indicative budget ceilings for all the line ministries. The Ministry of Finance prepares the fiscal capacity to determine the indicative budget ceilings. The Ministry of Planning and the Ministry of Finance issue the indicative

budget ceilings for each line ministry/agency and considering the results of evaluation on current Programmes and Activities, new initiatives, baseline adjustments, and fiscal capacity. The Minister of Planning and the Minister of Finance sign the circular letter concerning the indicative budget ceilings (GoI, 2014).

The budget ceilings and the budget allocations are solely the responsibility of the Ministry of Finance. In formulating budget ceilings, the Ministry of Finance considers fiscal capacity, the indicative budget ceilings, the work plans of line ministries/agencies (RENJA-KL), and new initiatives. The Ministry of Finance also considers the results of performance evaluation (RKAKL performance scores of line ministries/agencies). The Ministry of Finance issues the budget allocations after the Parliament and the Government agree on the state budget draft proposed by the Government. The Budget allocations cover the adjustment of work plans and budgets (RKAKL) of line ministries/agencies and new initiatives.

### **3.11 The Potential Uses of Performance Information**

The discussion in the previous sections has showed that there are potential uses of performance information by government officials and practitioners in the Ministry of Planning, the Ministry of Finance, line ministries/agencies, and the Parliament in the planning and budgeting process. From the discussions in the previous sections, Table 3.6 identifies the potential uses of performance information by each actor/institution in a particular activity.

**Table 3.6: The Potential Uses of Performance Information by Government Officials and Practitioners**

Activity	The Potential Uses of Performance Information by Government Officials and Practitioners			
	The Ministry of Planning	The Ministry of Finance	Line Ministries/ Agencies	The Parliament
Preparing the Indicative Budget Ceilings	Yes	Yes		
Trilateral Meetings	Yes	Yes	Yes	
RKAKL Review Meetings	Yes	Yes	Yes	
Budget Meetings with the Parliament	Yes	Yes	Yes	Yes
Preparing the Budget Ceilings		Yes		
Preparing the Budget Allocations		Yes		
Monitoring and Evaluation	Yes	Yes	Yes	Yes
Preparing budget proposals (the work plans and budgets documents/RKAKL)			Yes	
Allocating budgets within the ministries/agencies			Yes	
Using performance information for managerial purposes.			Yes	

Looking at Table 3.6, the results of the examination of these potential uses of performance information by government officials and practitioners will be presented in Chapters 5, 6 and 7.

### **3.12 Conclusion**

This chapter has discussed the evolution of performance-based budgeting implementation in Indonesia. It has presented important laws and regulations that affect the implementation of performance-based budgeting and the features of the



Indonesian performance-based budgeting including the introduction of RKAKL performance scores. The chapter has also discussed the roles of the Ministry of Planning, the Directorate General of Budget, line ministries/agencies, and the Parliament in the planning and budgeting process. Three budgetary decision stages in the planning and budgeting process have also been presented. The chapter concludes with the identification of the potential uses of performance information in the planning and budgeting process examined in this research. The following chapter outlines the research design and methods adopted for this research.

## **Chapter 4 - Research Design And Methods**

### **4.1 Introduction**

The previous chapter has set out institutional details of the budget reform in Indonesia, including steps taken towards implementing performance-based budgeting in the planning and budgeting process. It also discussed the potential use of performance information in the planning and budgeting process by the Ministry of Planning, the Ministry of Finance, line ministries/agencies, and the Parliament. Later chapters will set out the results of fieldwork study and a statistical analysis examining the extent of the use of performance information in Indonesia. The study includes exploring the use of performance information by different government practitioners involved in the budgeting process and investigating the challenges encountered by government practitioners in implementing performance-based budgeting.

In this chapter an overview of the research design adopted in the thesis is provided. It describes the sampling strategies and the research methods used, data collection processes and data analysis. It begins with a discussion of the issues relevant to conducting research on performance-based budgeting.

### **4.2 Methods of Performance-Based Budgeting Research**

A range of methods has been used by previous researchers in studying performance-based budgeting practice. Based on a systematic review of 61 articles on performance-based budgeting between 2002 and 2011, Lu, Mohr, and Ho (2015, p. 439) examined the methodologies used in literature to analyse the practice and impact

of performance-based budgeting. Studies often included more than one method. For example, a case study based on interviews or surveys might also contain descriptive and multivariate statistical analysis (Lu, Mohr, and Ho, 2015, p. 439). The most frequently used method was descriptive statistics (44.3%), then case studies and interviews (36.1%), surveys (26.2%), and multivariate statistics (23.0%) (Lu, Mohr, and Ho, 2015, p. 439).

Statistical analysis is still not a dominant methodology. One of the barriers to statistical analysis is the lack of availability of appropriate data (Lu, Mohr, and Ho, 2015, p. 441). While performance information has become more transparent and publicly available, how performance information is actually used and how the usage differs by agencies, programme nature, and leadership structure are still puzzles (Lu, Mohr, and Ho, 2015, p. 441). Until there is a more systematic release of programme performance and budget data and the process characteristics of budgetary decision-making, attempts to conduct any large-scale quantitative analysis of performance-based budgeting practice and impact will remain a challenge. Research in performance-based budgeting still needs well-designed qualitative studies to provide in-depth insights into how performance information is used in the budgetary process (Lu, Mohr, and Ho, 2015, p. 441).

Robinson and Brumby (2005, pp. 43-45) found that the empirical literature on government-wide performance budgeting was limited in its methodology. Opinion surveys have been the primary research tool. They found that because of methodological and data availability problems, there was little use of the actual

expenditure data for assessing the impact of performance budgeting on budget allocations.

(Lu, Mohr, and Ho, 2015, p. 447) suggested that in future research it would be appropriate to use different types of methods contingent upon the availability of data and on context, and there is a need for the collection of both qualitative and quantitative data.

### **4.3 The Choice of a Case Study Design**

Social research needs a research design before data collection or data analysis can begin (de Vaus, 2001, p. 9). The research design gives a framework for the collection and analysis of data (Bryman, 2012, p. 46). Further, de Vaus (2001, p. 9) explains that ‘the function of research design is to ensure that the evidence obtained enables us to answer the initial question as unambiguously as possible.’

There are variations on research designs. Bryman (2012, p. 50) classified research designs into five different types: experimental design, cross-sectional design, longitudinal design, case study design, and comparative design (Bryman, 2012, p. 50). Other authors such as de Vaus (2001, pp. 48-51) divide research designs into four broad types: experimental design, longitudinal design, cross-sectional design, and case studies. While McNabb (2002, p. 81) argues that researchers in the social and administrative sciences are no longer required to follow a single design for their researches, this particular research employs a case study design to investigate the implementation of performance based budgeting in Indonesia with particular attention

to the use of performance information in the planning and budgeting process. This is in line with the definition of a case study. According to Yin (2003, p. 13), a case study is 'an empirical inquiry that investigates a contemporary phenomenon with its real life context especially when the boundaries between the phenomenon and its context are not clearly evident'. Furthermore, Bryman (2012, p. 66) argues that the basic case study involves the detailed analysis and intensive analysis of a single case. Although the most common use of the term 'case' links the case study with a location, such as an organisation or a community (Bryman, 2012, p. 67), Yin (2003, pp. 22-23) argues that a case can be an individual, individuals, or some event or entity. According to de Vaus (2001, p. 220) a case is the object of the study and the unit of analysis that researchers seek to understand as a whole. Furthermore, Yin (2003, p. 23) also argues that case studies have been carried out about decisions, programmes, implementation processes, and organisational change. Therefore, this research selected the case study design because it intentionally seeks to investigate the recent status of the implementation of performance-based budgeting in Indonesia. In particular, this research involves the detailed and intensive analysis of the use of performance information by government practitioners in the planning and budgeting process in the context of performance-based budgeting in Indonesia. The challenges encountered in implementing performance-based budgeting are also investigated.

After selecting the implementation of performance-based budgeting in Indonesia as the case, or the object of the study, as a whole, it was necessary for this research to identify various components within that case. According to de Vaus (2001, p. 220), it is important to distinguish between cases as a whole and cases that involve various levels or components. Furthermore, de Vaus (2001, p. 221) argues that a well-

designed case study needs to collect information from many levels or components to gain more understanding of the whole case. The implementation of performance based budgeting in Indonesia involves various components or government institutions. This research identified that the implementation of performance based budgeting in Indonesia involves government officials or practitioners from four key government institutions: the Ministry of Planning, the Directorate General of Budget in the Ministry of Finance, line ministries/agencies, and the Parliament. As de Vaus (2001, p. 221) suggests that different data collection methods may be necessary for different components, this research also employed different research instruments or methods of data collection.

#### **4.4 Rationale for Selection of the Research Methods**

The research method can be seen as distinct from the research design. The research design is the logical structure of the study, while the research method is associated with data collection (de Vaus, 2001, p. 9). A research method is simply a technique for collecting data and it is associated with all different types of research design (Bryman, 2012, pp. 45-46). Each design type can use any data collection method, such as questionnaire, interview, observation, and documentary analysis (de Vaus 2001, pp. 9-10).

This case study research employed a combination of quantitative and qualitative methods of data collection in answering the research questions. According to Bryman (2012, p. 68), case studies are frequently employed in both quantitative and qualitative research. In the case study approach, researchers can use a variety of types of data (quantitative or qualitative) and a combination of research methods

(interviews, questionnaires) as part of the study (Denscombe, 2014, p. 56). In addition, any of the data collection methods can be used in a case study, provided that it is practical and ethical (de Vaus, 2001, p. 231).

Table 4.1 summarises the relationship between the research questions, methods of data collection, and data analyses employed for this research. Research questions number 1 and 2 are answered by three different methods of data collection and analysis. Research questions number 3 and 4 are answered by two different methods of data collection and analysis.

**Table 4.1: The Relationship Between Research Questions, Methods of Data Collection, and Data Analysis Used in this Research**

Research Questions	Methods of Data Collection	Data Analysis
RQ1: Is there evidence that performance results/scores are used in determining budget allocations?	Interviews with government officials or practitioners	Thematic Analysis
	Collecting RKAKL performance scores and budget data	Statistical Analysis
RQ2: Is there evidence that incremental budgeting practices still exist in the planning and budgeting process?	A Self-Completion Questionnaire to government practitioners	Descriptive Statistics
RQ3: How, in practice, do government practitioners use performance information in the planning and budgeting process?	Interviews with government practitioners	Thematic Analysis
RQ4: What challenges have government practitioners encountered in seeking to implement performance-based budgeting?	A Self-Completion Questionnaire to government practitioners	Descriptive Statistics

From Table 4.1, it can be seen that the research uses a combination of quantitative methods and qualitative methods of data collection and analysis. According to

Creswell and Plano Clark (2007, p. 6), this research is defined as a mixed method research as it involves both collecting and analysing quantitative and qualitative data. The rationales for why this research employs the combination of quantitative and qualitative methods are for reasons of offset, completeness, and triangulation.

Offset implies that both quantitative and qualitative methods have their own strengths and weaknesses so that combining them allows the researcher to offset their weaknesses and draw on the strengths of both methods (Bryman, 2006, p. 106). Mixed methods research offers strengths that offset the weaknesses of both quantitative and qualitative research (Creswell and Plano Clark, 2007, p. 9). The data collection methods used for this study were a self-completion questionnaire and a semi-structured interview. There are several strengths and weaknesses in using these two methods. Compared with the interview, Bryman (2012, pp. 233-234) argues that the self-completion questionnaire has several strengths. It can be cheaper and quicker to administer, avoids interviewer effects and interviewer variability, and is convenient for respondents. However, Bryman (2012, pp. 234-235) also states that the weaknesses of a self-completion questionnaire are that the interviewers cannot help respondents if they have difficulty in answering the questions; the interviewers cannot ask further or additional questions. In addition, the researchers do not know who answers, it can be the targeted respondents, their subordinates, their family members, or their friends. It is also difficult to ask a lot of questions in self-completion questionnaires, there is a greater risk of missing data and there are usually lower response rates.



In addition, one major advantage of the interview is its adaptability. In contrast to questionnaire responses that have to be accepted when they are returned, an interview response can be developed and clarified during the interview process (Bell, 2005, p. 157). Interviews can also produce rich materials to be explored (Bell, 2005, p. 157). However, interviews also have weaknesses. Interviews are time-consuming and are highly subjective because there is a possibility of bias when a researcher analyses the responses or when interviewees respond to the questions (Bell, 2005, p. 158).

Another reason for using both quantitative and qualitative methods for this research is to provide completeness. The use of more than one method can improve the findings by giving a richer and more complete picture of the subject that is being investigated (Denscombe, 2014, p. 147). Creswell and Plano Clark (2007, p. 9) also argue that mixed methods research provides more complete evidence for examining a research problem than a single method. Mixed methods research also assists in answering research questions that cannot be answered by qualitative or quantitative methods alone (Creswell and Plano Clark, 2007, p. 9). For this particular research, the use of both methods can produce a more comprehensive evidence and understanding regarding the use of performance information in the planning and budgeting process. The research can provide evidence not only about the extent of use of performance information in funding decisions but also the extent of use of performance information for other uses, such as in budget meetings and monitoring and evaluation.

Another reason for using both quantitative and qualitative methods is for triangulation. Triangulation is a process whereby the results of an examination using one method are validated against the results gained by using another method

(Bryman, 2012, p. 635). In this research, the results of statistical analysis of performance and budget data and the questionnaire are validated against the results of interviews.

#### **4.5 Sampling Strategies**

The research has involved interviewing and surveying a large sample of Indonesian central government officials or practitioners with different ranks and roles in the planning and budgeting process.

The study used a two-stage sampling procedure to select participants to be interviewed. Firstly, it selected ten government institutions/ministries/agencies to be involved in the interviews. Purposive sampling as suggested by, for example, Bryman (2012, p. 418), was used in the design of sampling, ensuring that those sampled were relevant to the research questions. Ten government institutions/ministries/agencies purposely sampled from 86 government institutions/ministries/agencies in Indonesian central government. Secondly, the study selected government officials/practitioners to be interviewed from these 10 government institutions/ministries/agencies.

After selecting the ten line ministries/agencies to be involved in the interviews, a self-completion questionnaire was distributed to the remaining 79 ministries/agencies that were not involved in the interviews.

##### **4.5.1 Selecting the Ten Government Institutions Included in the Interviews**

Together with members of the Parliament (DPR), the main actors of the planning and budgeting process in the Indonesian executive branches are government officials or

practitioners in the Ministry of Planning, in the Directorate General of Budget in the Ministry of Finance, and in line ministries/agencies.

The study aimed to examine ten government institutions/ministries/agencies. The Ministry of Planning and the Directorate General of Budget were selected because they have a role as the central planning and budgeting authorities that are responsible for the initiation of the planning and budgeting process. The Parliament (DPR) was selected because it is also involved in this process. The other seven line ministries/agencies were selected from the remaining eighty-three line ministries/agencies that received budget allocations in 2013. The sample accounted for just above 8% of the total number of line ministries/agencies.

Four general criteria were used in selecting the seven ministries/agencies with the aim of providing a representative sample of line ministries/agencies: the size of organisation, the performance scores of line ministries/agencies for the fiscal year 2012, the involvement of a ministry/agency in the piloting stage of performance-based budgeting in 2010, and the involvement of a ministry/agency in the initial bureaucratic reform programme in 2007. It is worth noting that a ministry/agency selected for this study does not necessarily have all these four characteristics.

The rationales for using these four criteria in selecting the seven line ministries/agencies are as follows.

- (1) The budget size of organisation. The budget size of an organisation in general could describe its size, number of staff that work there, and the complexity of its work, including in implementing performance-based budgeting. The budget

size of ministries/agencies is compared to others using budget allocations in 2013. This research selected ministries/agencies that have large, medium, and small budgets.

- (2) RKAKL Performance scores of the ministry/agency in 2012. Performance scores could describe the performance of a ministry/agency. The scores used were the total scores for each ministry/agency. This research selected ministries/agencies that span possible good, fair, or poor performance scores.
- (3) This research selected line ministries/agencies that both joined and those that did not join the piloting of the implementation of performance-based budgeting in 2010. There were six ministries/agencies that joined this pilot project: the Ministry of Public Works, the Ministry of Education and Culture, the Ministry of Planning, the Ministry of Finance, the Ministry of Health, and the Ministry of Agriculture.
- (4) This research selected line ministries/agencies that both took part and those that did not take part in the early bureaucratic reform programme in 2007. There were three ministries/agencies taking part in the programme: the Audit Board of Indonesia, the Ministry of Finance, and the Supreme Court.

Using the above four criteria, this research selected seven line ministries/agencies to be included in the interview process. These seven ministries/agencies are the Ministry of Public Works (MPW), the Ministry of Education and Culture (MEC), the Ministry of Forestry (MOFO), the Audit Board of Indonesia (BPK), the Corruption Eradication Commission (KPK), the Government Procurement Policy Agency (LKPP), and the Ministry of Administrative and Bureaucratic Reform (MABR). Table 4.2 provides a summary of all seven selected ministries/agencies and their corresponding criteria.

**Table 4.2: Line Ministries/Agencies Selected For Interviews**

No.	Criteria		Ministry/Agency*						
			MPW	MEC	MOFO	BPK	KPK	LKPP	MABR
1	Budget Size in 2013	Large	✓	✓	✓				
		Medium				✓	✓		
		Small						✓	✓
2.	RKAKL Performance scores in 2012	Good				✓	✓	✓	
		Fair	✓						✓
		Poor		✓	✓				
3.	Involved in the piloting of performance based budgeting in 2010	Yes	✓	✓					
		No			✓	✓	✓	✓	✓
4.	Included in the initial of bureaucratic reform programme in 2007	Yes				✓			
		No	✓	✓	✓		✓	✓	✓

\*Note: MPW: the Ministry of Public Works; MEC: The Ministry of Education and Culture; MOFO: the Ministry of Forestry; BPK: the Audit Board of Indonesia; KPK: the Corruption Eradication Commission; LKPP: the Government Procurement Policy Agency; MABR: the Ministry of Administrative and Bureaucratic Reform.

Table 4.3 provides further explanation of how each of these seven line ministries/agencies corresponded to the criteria used.

**Table 4.3: The Explanation of the Selected Line Ministry/Agency and Its Corresponding Criteria**

No.	Line Ministry/Agency	Corresponding Criteria
1	The Ministry of Public Works (MPW)	<ol style="list-style-type: none"> <li>1. Ranked number 2 out of 86 ministries/agencies in term of budget size. It has budget amount of Rp77.9 trillion (13% of all ministries budget) in 2013.</li> <li>2. Performance score of 2012: 77.10 (Fair)</li> <li>3. Listed among six ministries/agencies that included in the performance budgeting piloting in 2010.</li> </ol>
2	The Ministry of Education and Culture (MEC)	<ol style="list-style-type: none"> <li>1. Ranked number 3 out of 86 ministries/agencies in term of budget size. It has budget amount of Rp73 trillion (12% of all ministries budget) in 2013.</li> <li>2. Performance score of 2012: 58.89 (Poor)</li> <li>3. Listed among six ministries/agencies that included in the performance budgeting piloting in 2010.</li> <li>4. It did not take part in the initial bureaucratic reform programme in 2007.</li> </ol>
3	The Ministry of Forestry (MOFO)	<ol style="list-style-type: none"> <li>1. Ranked number 15 out of 86 ministries/agencies in term of budget size. It has budget amount of Rp6.7 trillion (1.1% of all ministries budget) in 2013.</li> <li>2. Performance score of 2012: 42.22 (Very Poor)</li> <li>3. It did not join the piloting of performance budgeting.</li> <li>4. It did not take part in the initial bureaucratic reform</li> </ol>

No.	Line Ministry/Agency	Corresponding Criteria
		programme in 2007.
4	The Audit Board of Indonesia (BPK)	<ol style="list-style-type: none"> <li>1. Ranked number 28 out of 86 ministries/agencies in term of budget size. It has budget amount of Rp2.9 trillion (0.48% of all ministries budget) in 2013.</li> <li>2. Performance score of 2012: 96.27 (Very good)</li> <li>3. It did not join the piloting of performance budgeting.</li> <li>4. One of three ministries that took part in the initial bureaucratic reform programme in 2007.</li> </ol>
5	The Corruption Eradication Commission (KPK)	<ol style="list-style-type: none"> <li>1. Ranked number 53 out of 86 ministries/agencies in term of budget size. It has budget amount of Rp706 billion (0.11% of all ministries budget) in 2013.</li> <li>2. Performance score of 2012: 97.03 (Very good)</li> <li>3. It did not join the piloting of performance budgeting.</li> <li>4. It did not take part in the initial bureaucratic reform programme in 2007.</li> </ol>
6	The Government Procurement Policy Agency (LKPP)	<ol style="list-style-type: none"> <li>1. Ranked number 73 out of 86 ministries/agencies in term of budget size. It has budget amount of Rp211 billion (0.036% of all ministries budget) in 2013.</li> <li>2. Performance score of 2012: 141.67 (Very good)</li> <li>3. It did not join the piloting of performance budgeting.</li> <li>4. It did not take part in the initial bureaucratic reform programme in 2007.</li> </ol>
7	The Ministry of State Apparatus and Bureaucratic Reform (MSA)	<ol style="list-style-type: none"> <li>1. Ranked number 74 out of 86 ministries/agencies in term of budget size. It has budget amount of Rp201 billion (0.033% of all ministries budget) in 2013.</li> <li>2. Performance score of 2012: 71.61 (Fair)</li> <li>3. It did not join the piloting of performance budgeting.</li> <li>4. It did not take part in the initial bureaucratic reform programme in 2007.</li> </ol>

#### 4.5.2 Selecting Interview Participants

After selecting ten institutions to be included in the research, the next step was to select government officials or practitioners to be interviewed from those institutions. In order to explore the use of performance information and the implementation of performance-based budgeting in the planning and budgeting process as comprehensively as possible, the research aimed to select government officials or practitioners from a range of departments/bureaus/directorates within those institutions that represent the role of their institutions in the planning and budgeting process.

Table 4.4 provides the list of departments/bureaus/directorates from each ministry/agency/institution selected for this research. In the Ministry of Planning, there were two Offices of the Deputy and five Directorates involved in the study including the Office of the Deputy of Development Funding. As discussed earlier in Chapter 3, the office of the Deputy of Development Funding is the key office that has responsibility for managing the whole planning process. Five selected-directorates represent directorates that manage the planning process for a particular sector or ministry/agency. The Office of the Deputy of Monitoring, Evaluation, and Controlling was also selected because it has the responsibility to conduct monitoring and evaluation. From the Directorate General of Budget in the Ministry of Finance, all five Directorates within that office were selected in the study. All these directorates have different roles in the budgeting process. From each of the seven ministries/agencies, government practitioners selected came from a department/bureau/directorate that manages the planning and budgeting process within their ministry/agency. Finally, the study also aimed to obtain views from the Members of Parliament regarding the use of performance information and the implementation of performance-based budgeting.

**Table 4.4: Selecting Interviews Participants**

Ministry/Agency/Institution	Department/Bureau/Directorate
The Ministry of Planning (MOP)	<ul style="list-style-type: none"> <li>▪ The Office of the Deputy of Development Funding</li> <li>▪ The Directorate of Religion, Culture, Youth, and Sport (The Directorate of Religion in short)</li> <li>▪ The Directorate of State Apparatus</li> <li>▪ The Directorate of Transportation</li> <li>▪ The Directorate of Water and Irrigation</li> <li>▪ The Directorate of Forestry</li> <li>▪ The Office of the Deputy of Monitoring, Evaluation, and Controlling</li> </ul>
The Directorate General of Budget in the Ministry of Finance (MOF)	<ul style="list-style-type: none"> <li>▪ The Directorate of Budget I</li> <li>▪ The Directorate of Budget II</li> <li>▪ The Directorate of Budget III</li> <li>▪ The Directorate of Budgeting System</li> <li>▪ The Directorate of State Budget Formulation</li> </ul>
The Ministry of Public Works (MPW)	<ul style="list-style-type: none"> <li>▪ The Planning Bureau in the Secretariat General</li> <li>▪ The Directorate of Programme in two Directorate Generals</li> </ul>
The Ministry of Education and Culture (MEC)	<ul style="list-style-type: none"> <li>▪ The Planning Bureau in the Secretariat General</li> <li>▪ The Directorate General of Basic Education</li> </ul>
The Ministry of Forestry (MOFO)	<ul style="list-style-type: none"> <li>▪ The Planning Bureau in the Secretariat General</li> <li>▪ The Directorate General of Forest Protection and Nature Conservation</li> </ul>
The Audit Board of Indonesia (BPK)	<ul style="list-style-type: none"> <li>▪ The Directorate of Planning and Performance Management</li> <li>▪ The Finance Bureau</li> </ul>
The Ministry of Administrative and Bureaucratic Reform (MABR)	<ul style="list-style-type: none"> <li>▪ The Planning and Performance Management Bureau</li> <li>▪ The Office of the Deputy of Bureaucratic Reform, Accountability, and Monitoring</li> </ul>
The Corruption Eradication Commission (KPK)	<ul style="list-style-type: none"> <li>▪ The Planning and Finance Bureau</li> </ul>
The Government Procurement Policy Agency (LKPP)	<ul style="list-style-type: none"> <li>▪ The Bureau of Planning and Organisation</li> </ul>
The Parliament (DPR)	<ul style="list-style-type: none"> <li>▪ Members of the Commission XI</li> </ul>



#### **4.6 Data Collection Procedures**

Data collection aims to gather data from the sample relevant to answering the research questions (Bryman, 2012, p. 14). This study employed three different data collection procedures: collecting performance scores and budget data; conducting interviews; and distributing the questionnaire. Performance scores and budget data were collected earlier in the research; the interview process and the questionnaire distributions were conducted concurrently.

Research that involves data collection methods such as questionnaires and interviews from or about people generally requires ethical approval (Denscombe, 2014, p. 307). The ethical review form of the research was submitted and reviewed by the Humanities and Social Sciences Ethical Review Committee of the University of Birmingham before the fieldwork commenced. The research was granted ethical approval on 27 September 2013 with reference number ERN\_13-1022. All relevant requirements complied with and aligned to the University's Code of Practice for Research.

##### **4.6.1 Collecting Performance Scores and Budget Data**

Performance scores and budget data were used in statistical analyses for answering the first two research questions. Firstly, performance scores and budget data were used in examining the relationship between performance scores and budget allocations. Secondly, budget data were used in examining the extent of incremental budgeting in Indonesia. This research used budget data for the fiscal year 2011-2014 and performance scores data for 2011-2013.

Performance scores and budget data were collected from the Directorate General of Budget in the Ministry of Finance. Due to data availability, the collection of these data from that office was conducted in two stages. A first letter requesting data was sent to the Directorate of Budgeting System in the Directorate General of Budget on 10<sup>th</sup> June 2013. A second letter was sent to the Directorate General of Budget on 13<sup>th</sup> November 2013 concurrently with the request to conduct interviews with government officials from the Directorate General of Budget.

The research used budget data from various sources because one source of data could not provide all data required. For example, the circular letter of the Minister of National Planning Number 0181/M.PPN/04/2010 and the circular letter of the Minister of Finance Number SE-120/MK/2010 regarding the indicative budget ceilings of the fiscal year 2011 only provided budget data at the ministry level. Therefore, the data at Programme level needed to be gathered from another source. In this case, the indicative budget ceilings data at Programmes level for the fiscal year 2011 were taken from the Ministry of Finance Circular Letter Number SE-294/MK.02/2010 regarding the budget ceilings of fiscal year 2011. Appendix I provides the list of sources of budgetary and performance scores data gathered from the Directorate General of Budget.

The research used budget data from various sources, so further analysis showed that several elements of budget data were not necessarily fully matched with other data. For example, for one ministry, there was a possibility that the sum of the budget at the ministerial level was different from the sum of the budget at the programme level.

#### **4.6.2 Conducting Interviews**

The researcher sent a request letter to each head of ministry/agency to assign officials/practitioners that have responsibility in the planning and budgeting process to be interviewed for this research. With the aim of getting access to government officials/practitioners to be interviewed from each selected-ministry/agency, the letter was sent to each ministry/agency on 13<sup>th</sup> November 2013. The letter was supplemented by a summary of the project, the reasons why the ministry/agency were selected for the study, the list of targeted departments/directorates/bureaus in the ministry/agency, and the project information sheet for interview candidates.

In practice, not all heads of ministry/agency replied to the letter and hence did not assign officials to be interviewed. The researcher tracked which department, bureau or division within each ministry/agency had received the request letter regarding this research from their superior. As Bryman (2012, p. 151) argues, gaining access for research is a matter of negotiation and is usually controlled by several layers of gatekeepers relevant to the research. Although these several ministries/agencies had not replied to the request letter, they had actually decided to be involved in the research and each head of ministry/agency internally had instructed their subordinate to follow up the request.

After getting access for interviews, most interviewees were approached by phone or the researcher had to visit the office of ministries/agencies to make arrangements for the interviews with the assigned officials/practitioners. Again, this arrangement required a constant process of negotiation and renegotiation to get agreement on

which government officials or government practitioners could be interviewed and when the interviews could be performed.

Different arrangements were made to get access to Members of Parliament. The researcher used his personal contacts to reach them. The Members of Parliament were busy in their campaign for the general election of 2014, therefore the researcher only managed to persuade two Members of Parliament to be interviewed.

Table 4.5 provides profiles of the interviewees from each institution/line ministry/agency. In total there were 53 participants: 49 males and 4 females. From the nine ministries/agencies, most of the interviews' participants held senior positions in their ministries/agencies. Nine participants (18%) were at the upper-management level (echelon I and II), nineteen participants (37%) were at the middle-management level (echelon III), and twenty-three participants (45%) were at the lower-management level (echelon IV or similar levels).

**Table 4.5: Profiles of the Interviewees**

No	Institution/Line Ministry/Agency	Interviewee Profile						Number of Interviewees
		Sex		Echelon				
		M	F	I	II	III	IV	
1.	The Ministry of Planning (MOP)	8	2	1	1	7	1	10
2.	The Directorate General of Budget in the Ministry of Finance (MOF)	15	0	0	1	0	14	15
3.	The Ministry of Public Works (MPW)	5	0	0	0	1	4	5
4.	The Ministry of Education and Culture (MEC)	4	0	0	2	2	0	4
5.	The Ministry of Forestry (MOFO)	4	0	0	1	3	0	4
6.	The Audit Board of Indonesia (BPK)	4	2	0	1	3	2	6
7.	The Corruption Eradication Commission (KPK)	1	0	0	0	1	0	1
8.	The Government Procurement Policy Agency (LKPP)	2	0	0	1	1	0	2
9.	The Ministry of State Apparatus and Bureaucratic Reform (MSA)	4	0	0	1	1	2	4
10.	Members of the Parliament (DPR)	2	0	0	0	0	0	2
	Total	49	4	1	8	19	23	53

The interviewees from the Ministry of Planning came from seven different offices of deputies or directorates. The government officials to be interviewed from the Directorate General of Budget were from five different directorates. Interviewees from ministries/agencies came from a department/bureau/directorate within the ministry/agency responsible for managing the planning and budgeting process. Table 4.6 provides the distribution of the interviewees for each line ministry/agency.

**Table 4.6: The Distribution of the Interviewees**

Line Ministry/Agency/ Institution	Department/Bureau/Directorate	Number of Interviewees
The Ministry of Planning	▪ The Office of the Deputy of Development Funding	2
	▪ The Directorate of Religion, Culture, Youth, and Sport (or the Directorate of Religion in short)	2
	▪ The Directorate of State Apparatus	1
	▪ The Directorate of Transportation	1
	▪ The Directorate of Water and Irrigation	1
	▪ The Directorate of Forestry	2
	▪ The Office of the Deputy of Monitoring, Evaluation, and Controlling	1
The Directorate General of Budget	▪ The Directorate of Budget I	3
	▪ The Directorate of Budget II	3
	▪ The Directorate of Budget III	3
	▪ The Directorate of Budgeting System	4
	▪ The Directorate of State Budget Formulation	2
The Ministry of Public Works	▪ The Planning Bureau in the Secretariat General	2
	▪ The Directorate of Programme in two Directorate Generals	3
The Ministry of Education and Culture	▪ The Planning Bureau in the Secretariat General	3
	▪ The Directorate General of Basic Education	1
The Ministry of Forestry	▪ The Planning Bureau in the Secretariat General	3
	▪ The Directorate General of Forest Protection and Nature Conservation	1
The Audit Board of Indonesia	▪ The Directorate of Planning and Performance Management	4
	▪ The Finance Bureau	2
The Ministry of Administrative and Bureaucratic Reform	▪ The Planning and Performance Management Bureau	3
	▪ The Office of the Deputy of Bureaucratic Reform, Accountability, and Monitoring	1

Line Ministry/Agency/ Institution	Department/Bureau/Directorate	Number of Interviewees
The Corruption Eradication Commission	▪ The Planning and Finance Bureau	1
The Government Procurement Policy Agency	▪ The Bureau of Planning and Organisation	2
The Parliament	▪ Members of the Commission XI	2

A semi-structured one-to-one interview was conducted with each selected participant in Jakarta, Indonesia between 6<sup>th</sup> January and 30<sup>th</sup> April 2014. Most interviews were performed at the office of each interviewee. One interview with a government official from the Ministry of Planning was conducted at a hotel after that official attended a meeting there. One interview with a Member of Parliament was conducted by phone because he was very busy at that time. Another interview with another Member of Parliament was performed at his house outside office hours.

The researcher interviewed the participants based on a list of questions that covered five main themes: general questions about the profile of the interviewee; the implementation of performance-based budgeting in Indonesia; the use of performance information in determining budget allocations; the use of performance information in the budgeting process; and a question on what challenges were encountered by government officials/practitioners in implementing performance-based budgeting. The questions were open-ended, which allowed the participants to express their experiences, opinions, and feelings about the implementation of performance based budgeting and the use of performance information. Follow-up questions were improvised during the interviews.

Before each interview commenced, the researcher provided the interviewee with the participant information sheet and explained to each interviewee about the researcher,

the purposes of the research, and why the interviewee had been invited to take part in the research. The interviewee was given an opportunity to ask any questions about the research and was asked to sign a consent form. The researcher requested permission from the interviewee to tape-record the entire interview and the interviewee was given opportunity to stop the interview at any time.

All interviews were tape-recorded. On average, each interview took approximately 50 minutes. The shortest interview took 23 minutes and the longest one took 120 minutes. All interviews were then transcribed for analysis.

In reporting the research outcomes, pseudonyms were used to protect the privacy of all government officials and practitioners. Code numbers for the interviews were used for cross checking to what the researcher had done. For instance “Interview 6” refers to the sixth respondent that was interviewed. The researcher has the full record of the interview.

#### **4.6.3 Distributing the Questionnaire**

A self-completion questionnaire was sent to all line ministries/agencies that receive annual budget allocations from the government, with the aim of revealing the range of uses of performance information in the budgeting process. An exception was made for the seven ministries/agencies that were visited for interviews. In total, the survey was sent to 79 out of 86 ministries/agencies.

It was requested that the survey should be filled in by the Head of the Planning Bureau or a senior manager with a similar position that has responsibility for

managing the planning and budgeting process in her/his ministry. He or she acted as the representative of his/her ministry/agency. The survey asked for the official's view and experience of the ministry in using performance information for the budgeting process and managerial activities. Performance information, as defined in this survey, covers performance indicators/targets as stated in the planning and budget documents and performance scores/results based on the Minister of Finance Regulation 249/2011.

With regard to the research questions and the objectives of the research, the questions in the survey were categorised into five themes:

- (1) the use of performance information by government officials/practitioners from the Ministry of Planning, the Ministry of Finance and the Parliament in determining budgets.
- (2) the use of performance information by government officials/practitioners from the Ministry of Planning, the Ministry of Finance and the Parliament in the planning and budgeting process.
- (3) the use of performance information by government practitioners from line ministries/agencies in the planning and budgeting process.
- (4) the use of performance information by government practitioners from line ministries/agencies beyond the budgeting process in their ministries/agencies.
- (5) the implementation of performance-based budgeting in Indonesia. This includes the exploration of factors affecting the use of performance information and challenges encountered by government practitioners from line ministries/agencies in using performance information.



In each category, the respondents were also encouraged to answer an open-ended question. The open-ended questions were designed with the aim of obtaining different insights from respondents that were not covered by the closed questions.

According to Denscombe (2014, p. 170), from both ethical and practical considerations, the researcher needs to provide some background information about the research and the questionnaire such as the purpose of the research, voluntary responses, confidentiality, and return address and date. In the questionnaire, the researcher provided the background and the purpose of the questionnaire on the front page. The questionnaire also clearly stated that the participation of the respondents was voluntary. In addition, the researcher kindly asked respondents to answer the statements in the questionnaire honestly and stated that their responses will be valuable for the research. The researcher also declared that all information collected from the questionnaire would only be used for the research. All personal information regarding the respondents would also be treated as confidential.

The survey was sent on 6<sup>th</sup> January 2014 to 79 Head of Secretariats/ Secretary Generals of line ministries/agencies. The researcher asked the ministries/agencies to fill in and return the answered-survey within six weeks. The success of a research questionnaire depends on three things: response rate, completion rate, and validity of responses (Denscombe, 2014, p. 167). With the aim of increasing the response rate of the questionnaire, the respondents were asked to send their responses using one of three methods: by postal address to the researcher using the stamped-addressed envelope provided; or scanning and sending by email to the researcher's email address; or by requesting the researcher to collect directly from their offices. The researcher rented a PO Box to be used as a postal address for receiving responses

from the respondents. The researcher also provided his telephone number so that he could be contacted by respondents. It was expected that the responses would be received no later than 14<sup>th</sup> February 2014.

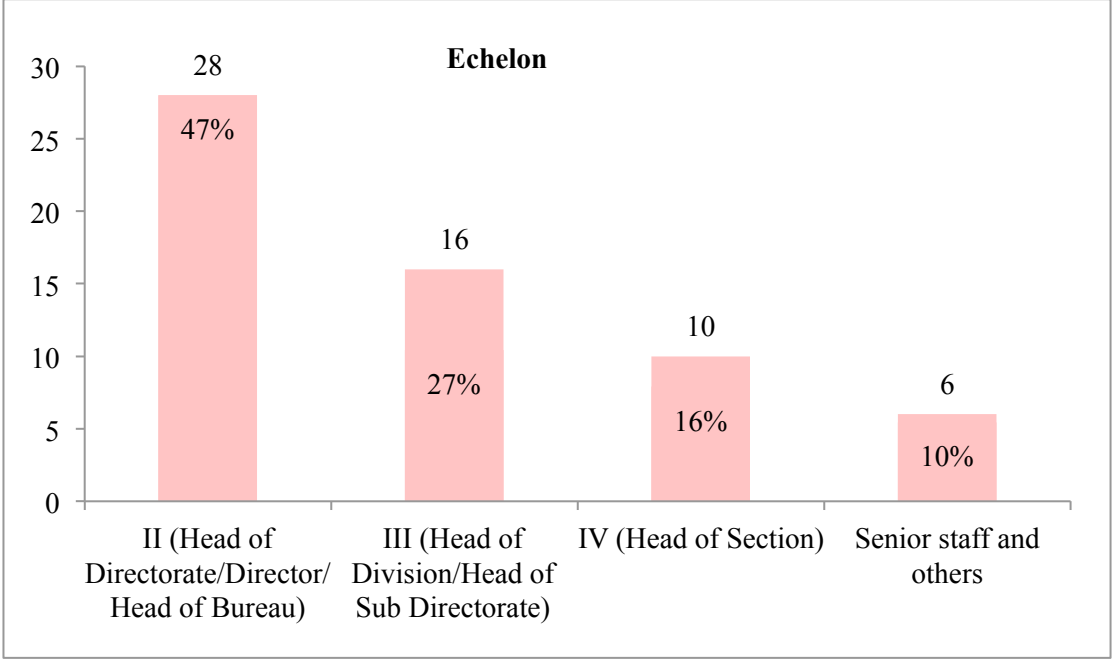
By the 14<sup>th</sup> February deadline, however, the researcher had only received 17 responses (21.5%). Under the circumstances, the researcher decided to send a second letter to remind those ministries/agencies that had not sent their responses. The second letter and the survey were sent on 14<sup>th</sup> February 2014 to the remaining ministries/agencies that had not responded to the first letter. The deadline for responding to the survey was extended for another five weeks, until 21<sup>st</sup> March 2014.

The researcher also made several phone calls to several ministries/agencies reminding them about the survey in order to increase the response rate. This process took about two weeks, between 17<sup>th</sup> and 28<sup>th</sup> February 2014. Telephone reminders were time intensive, the researcher had to contact several people before reaching the person in charge of handling the questionnaire. In the process, the researcher accepted the completed answered surveys from line ministries/agencies, despite the deadline having passed.

By 8<sup>th</sup> April 2014, the researcher had received 60 responses in total from 53 ministries/agencies. The discrepancy results from the fact that there were seven ministries/agencies that sent two responses. These responses are treated the same as others because the persons who completed the survey were different. In total, the response rate for the survey was almost 76%. The percentage of ministries/agencies that responded to the survey was 67%.

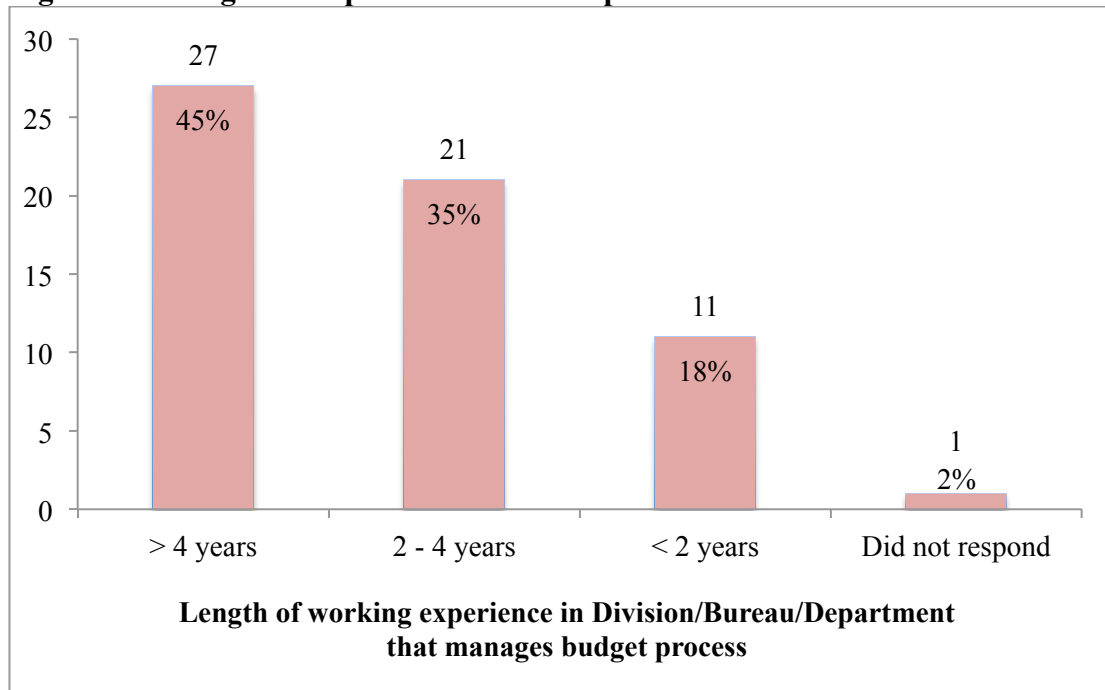
Initially, the aim of the research was to have survey responses filled in by the Head of the Planning Bureau or the person who has a similar role and position (echelon II) in each line ministry/agency. However, analysis of the responses shows that the rank of respondents was generally lower than expected, varying from echelon II, III, IV, staff and others. The profiles of the respondents can be seen in Figure 4.1.

**Figure 4.1: Profiles of the Survey’s Respondents**



Although the rank of the respondent who filled in the survey was lower than was expected, further examination revealed that the respondents all come from Planning Bureaus or similar divisions responsible for managing the budgeting process within their ministries/agencies. Most respondents also have fairly lengthy working experience in the budgeting process. Figure 4.2 shows the length of experience of the respondents in managing the budgeting process in their ministries/agencies.

**Figure 4.2: Length of Experience of the Respondents**



The Figure shows that the majority of respondents (80%) have two or more years working experience in managing the budget process for their ministries/agencies. Therefore, it can be concluded that the government practitioners who filled in the survey have a good level of knowledge, competency and experience in the planning and budgeting process for the period 2011 to 2014.

#### **4.7 Data Analysis**

The process of data analysis covers data preparation, initial exploration of the data, analysis of the data, presentation and display of the data and validation of the data (Creswell and Plano Clark, 2007, p. 129). The data gathered from the fieldwork were analysed separately using qualitative methods of analysis for the interview data. Quantitative data analysis was used to examine the effect of performance scores on the percentage change in budget allocations year-on-year both at the ministry level and at the programme level. The study therefore examines the Pearson correlation

coefficient between the performance scores of the previous years and budget allocations of the following years. In the simple bivariate methods used this correlation coefficient is equal to the linear regression coefficient between the two variables when they are both standardized. Because the size of the non-standardised regression coefficient is not of interest *per se*, as the units of measurement are not of great interest, we conduct the analysis in terms of the correlation coefficient. In our statistical work we test the null hypothesis that the true correlation coefficient is equal to zero against a null hypothesis that it is not equal to zero. The study examines the correlation between the two variables, performance scores and changes in budget allocations. The models rely on budget data at the ministry and programme level for the period of 2011-2014 and performance scores data for the period of 2011-2013. We can note that the statistical analysis is quite simple in that multiple regression analysis is not used. This raises the possibility that our results could be affected by omitted variable bias, and further research might pursue further refinement using multivariate analysis. Nevertheless we believe the results of this simple analysis, presented in the next chapter are of interest.

We also use the budget data are also used to seek evidence on whether incremental budgeting practice still exists in the budgeting process. The statistical analyses are discussed further in Chapter 5.

For the qualitative data from the interviews, all interviews were transcribed and then analysed using thematic analysis. According to Bryman (2012, p. 717), thematic analysis is defined as “a term used in connection with the analysis of qualitative data to refer to the extraction of key themes in one’s data. It is a rather diffuse approach

with few generally agreed principles for defining core themes in data”. As argued by Braun and Clarke (2006, p. 82), a theme that counts in research is a theme that captures something important about the data relevant to the research question, and represents some level of patterned response within the data set. Therefore, the importance of a theme is not necessarily dependent on quantifiable measures. The judgement of the researcher is vital in determining what a theme is (Braun and Clarke, 2006, p. 82). The steps of thematic analysis are: reading and re-reading the data to get initial ideas, coding interesting features of the data, collating codes into potential themes, gathering all data relevant to each theme, defining and naming themes, and producing the report (Braun and Clarke, 2006, pp. 86-93). Depending on the relevant research questions, the results of the analysis are reported in Chapters 5, 6, and 7.

The questionnaire responses were analysed using descriptive statistics and are presented based on four themes in the following chapters.

1. The results of the questionnaire that relate to the direct use of performance information by budget officials in the Ministry of Planning, the Directorate General of Budget and Parliament in determining budgets are presented in Chapter 5.
2. The results of the questionnaire that relate to the use of performance information by budget officials in the Ministry of Planning, the Directorate General of Budget and Parliament in the planning and budgeting process are presented in Chapter 6.
3. The results of the survey that relate to the use of performance information by government practitioners from line ministries/agencies in the planning and budgeting process are presented in Chapter 6.

4. The results of the survey that relate to the use of performance information by government practitioners from line ministries/agencies beyond the budgeting process within their ministries/agencies are presented in Chapter 6.
5. The results of the survey that relate to the challenge encountered by government practitioners from line ministries/agencies in implementing performance-based budgeting in Indonesia are presented in Chapter 7.

#### **4.8 Reflexivity in the Research Process**

An important aspect to be considered in this research concerns the role of the researcher as an insider. Robson (2002) defines an ‘insider’ as “a researcher who conducts a study that is directly concerned with the setting in which they work.” The researcher is an employee of the Indonesian Government and he previously managed the planning and budgeting process in his office. Therefore the researcher is rather familiar with the planning and budgeting process in the Indonesian central government. This is one of the advantages as an insider. As Griffiths (1985, p. 211) argues that insiders have a better initial understanding of the setting because they know the context.

Another advantage of being an insider is that the researcher already knew several government practitioners from the Ministry of Planning, the Directorate General of Budget, and the Audit Board of Indonesia involved in the study. However, the researcher has tried to keep his distance from the participants and explained to those participants that the study is not related to the status of the researcher as an employee of the Government and his previous role. As Kanuha (2000, p. 442) argues, the most

critical aspect of the insider role is the need to distance himself from the project and the participants.

In addition, although Mercer (2007, p. 6) argues that access is more easily granted to the insider researcher, this was not the case with this study. The researcher had to follow the normal procedure to get performance and budget data, to meet participants, and to distribute the questionnaire. It was rather difficult and time consuming to get performance and budget data from the Directorate General of Budget. Arranging the schedule of the interviews with government practitioners also took considerable time and energy in negotiating with layers of gatekeepers. The researcher also could not recruit several participants who had been targeted for the research, such as officials from the Directorate Budget I, II, and III in higher positions.

#### **4.9 Conclusions**

This chapter has outlined the research design and methods employed in this research. It has explained and justified the choice of a case study design in investigating performance-based budgeting in Indonesia. The chapter has also discussed the adoption of both quantitative and qualitative research methods relevant in answering the research questions of the research. The two-stage sampling procedure used in selecting the ten institutions/ministries/agencies and participants of the study has also been presented. The procedures of collecting performance scores and budget data, conducting interviews with government practitioners, and distributing the questionnaire to the respondents from line ministries/agencies have been reported. The chapter then discussed the analysis used in managing and interpreting the data. The simple bivariate models used in the quantitative statistical analysis have been



explained and their possible limitations discussed. In addition, the chapter has reflected on the key challenges encountered by the fieldwork.

In the next three chapters we turn to considering the findings from the research.

## **Chapter 5 – Factors Affecting Budget Allocations, the Use of Performance Scores for Determining Budget Allocations, and the Extent of Incremental Budgeting Practices**

### **5.1 Introduction**

This chapter reports the findings that relate to research questions number one and two. Research Question Number One asks: ‘Is there evidence that performance results/scores are used in determining budget allocations?’ while Research Question Number Two asks, ‘Is there evidence that incremental budgeting practices still exist in the planning and budgeting process?’ To answer these two questions, this research applies two approaches. In the first approach, the research collects evidence from interviews with government officials from the Ministry of Planning, the Directorate General Budget in the Ministry of Finance, and government practitioners from line ministries/agencies to identify what factors, including performance information might be used by government officials from these two Ministries in the budgeting decisions as well as to identify whether the existence of incremental budgeting is a feature of the planning and budgeting process. In addition, the research also collects evidence from the research survey of government practitioners from line ministries/agencies.

In the second approach, the research uses statistical analysis to further examine the relationship between performance scores and budget allocations and uses statistical analysis to further examine the question of whether incremental budgeting still exists

in practice. This second statistical approach allows a degree of triangulation with the interview study presented in the first part of the chapter.

The chapter begins with a discussion of the importance of the “indicative budget ceilings” stage of budgeting compared to the other two budgetary decision stages, namely: the “budget ceilings” and the “budget allocations”. Then, the discussion continues by exploring the use of performance information by government officials from the Ministry of Planning and the Directorate General of Budget in the Ministry of Finance in preparing the indicative budget ceilings. The third section of the chapter discusses factors affecting budget allocations. The discussion continues by presenting the results of statistical analysis of the relationship between performance scores and budget allocations and the extent of incremental budgeting practice.

## **5.2 The Importance of the Indicative Budget Ceilings Stage**

As discussed in Chapter 3, according to the Government Regulation 90/2010, there are three budgetary decision-making stages in the Indonesian central government planning and budgeting process, namely: the indicative budget ceilings in March, the budget ceilings in June, and the budget allocations in November. The Ministry of Planning, in co-operation with the Ministry of Finance (MOF), is responsible for the formulation of the indicative budget ceilings for all line ministries. Government Regulation 90/2010 and the annual Minister of Finance decrees, concerning the preparation of line ministries’ work plan and budget (RKAKL) (for example the Minister of Finance decree 94/2013), stipulate that the Ministry of Planning and the Ministry of Finance should consider various factors, including performance, in

formulating the indicative budget ceilings, the budget ceilings, and the budget allocations.

Although the budget allocations are the ultimate budgets allocated for line ministries/agencies, the process in setting the budget allocations is in general not independent from the previous budget allocation stages, namely the indicative budget ceilings and the budget ceilings. In other words, the previous stages of the budgeting process may have important roles in determining the budget allocations. Here we seek to identify which are the more decisive budget stages in the budgeting process. To do this, we analyse the opinions on this question of government officials from the Ministry of Planning and the Directorate General of Budget in the Ministry of Planning.

The interview responses of government officials from the Directorate General of Budget in the Ministry of Finance were varied but most interviewees suggested that the first stage of budgeting, namely the indicative budget ceilings, is the most important funding decision. A number of reasons were advanced for this. Seven out of nine budget officials thought that the indicative budget ceiling is crucial in determining the final funding for line ministries/agencies. In addition, three budget officials believed that the changes of budget amount from the indicative budget ceiling to the next stages are not significant. Changes made are usually to include new policies, fiscal policy revision, or new initiative proposals into the funding decision. The officials also talked about the influence of the Parliament on the changes of the indicative budget ceilings. They made comments:

[The budget changes] from the indicative budget ceiling to next budgets are not significant. The change usually occurred because the changes of fiscal policy

from the Parliament. As long as there is a fiscal space, we can only add the budget to line ministries/agencies. (Head of Section at the Directorate of Budget II, the Directorate General of Budget, Interview 32)

Yes. Its [the indicative budget ceiling] name is only “indicative”, but it is very crucial because it will affect how much the budget allocation for a ministry/agency will be. In the budget ceilings stage, there are possibilities to increase budget in order to cover new initiatives proposed by line ministries/agencies or directions of the President, but these increases would not much. (Head of Section at the Directorate of Budget II, the Directorate General of Budget, Interview 28)

Deciding the indicative budget ceiling is crucial because our decision in the indicative budget ceiling will affect the next stages of budget process. Adjustments of the indicative budget ceiling may occur in the next budget stages if there are new policies such as the policy to increase salary of civil servants, budget increases from the government, or budget optimisation which is decided by the Parliament. (Head of Section at the Directorate of Budget II, the Directorate General of Budget, Interview 26)

One budget official considered the indicative budget ceiling is the most important resource allocation arguing that any mistakes in calculating the indicative budget would be difficult to correct in the next stages of resource allocation. Here is his comment:

I think the indicative budget is the most important one...the mistakes [of calculation] in the indicative budget ceiling will be carried forward to the budget allocation. For example, if we miscalculated the budget for salaries, it will be difficult to be corrected in the next budget stages. (Head of Section at the Directorate of Budget III, the Directorate General of Budget, Interview 29)

Two interviewees from the Directorate General of Budget discussed the important roles of deciding the indicative budget ceiling. One of them, Director of the Directorate of Budgeting System, pointed out that those are in the Directorate General of Budget should play their roles as budget analysts using a scientific approach in deciding the indicative budget. Another official argued that the indicative budget ceiling could inform the public about how the government has set its priorities and targets.

The indicative budget is crucial...because it gives a signal to the economy...about the fiscal policy of a country in spending...in preparing the

indicative budget ceilings, we should have set priorities and targets that we want to achieve with that money. (Head of Section at the Directorate of Budgeting System, the Directorate General of Budget, Interview 34)

He further commented that at the budget ceilings stage, generally there were only small changes in policies, such as the increase of salaries for civil servants, and the budget increases determined by the Parliament.

Another budget official also agreed that the indicative budget ceiling has a crucial position and he gave the following reason:

In my opinion, the crucial [point] is the indicative budget ceiling. It means that if the budget allocated in the indicative budget ceiling is still the same until the budget allocation stage [the final stage], we do not need to review the RKAKLs. (Head of Section at the Directorate of Budget I, the Directorate General of Budget, Interview 31)

In contrast, two budget officials have different opinions. One official argued that the budget allocation stage is the most important one with a reason that it has included all budgets that have been allocated for line ministries/agencies.

Actually, the budget allocation stage is the most important one. Because it has covered all budget adjustments. An unexpected additional budget sometime occurred in this stage. The Parliament might increase the budget to a particular ministry/agency although they did not need it. (Head of Section at the Directorate of Budget I, the Directorate General of Budget, Interview 25)

The other differing official argued that the budget ceiling is the most vital budget decision because it has incorporated agreements between the government and the Parliament. He commented as follows:

The budget ceiling is the most important because after the issuance of budget ceilings, we in the Ministry of Finance examine and review the work plan and budget document of line ministries (RKAKL). This budget has also accommodated agreements reached between the government and the Parliament. The indicative budget ceiling is a pure government policy but in the process of deciding the budget ceilings, the government had communicated with the Parliament. In term of aggregate budget, it seems that for the strategic ministries such as the Ministry of Health and the Ministry of Education, there are major differences between the indicative budget ceiling and the budget ceiling. However, the difference between these two budgets for small

ministries/agencies is minimal. (Head of Section at the Directorate of Budget II, the Directorate General of Budget, Interview 27)

Three officials of the Ministry of Planning, asked the same question, supported the opinions of most interviewees from the Directorate General of Budget. They also believed that the indicative budget ceiling is the most vital budget decision. They made comments as follows:

The first one [indicative budget] determines most of budget... actually there is not much difference between the indicative budget ceilings and the budget ceilings. The tricky one is if there is [budget] optimisation in the budget allocations stage. In the budget meeting with the Parliament, we mostly depend on the agreement between each line ministry/agency and the Parliament. We cannot really control the behaviour of line ministries/agencies in the budget meetings with the Parliament even though there are agreements in cabinet meetings before they meet the Parliament. (Head of the Office of the Deputy of Development Funding, the Ministry of Planning, Interview 39)

The process of deciding the indicative budget ceiling is a purely technocratic process... It is important and there is relatively no intervention [political intervention from the Parliament]. (Head of Sub Directorate at the Directorate of Water and Irrigation, the Ministry of Planning, Interview 46)

The budget ceiling is roughly the same as the indicative budget ceiling. The differences may happen because of the change of macro assumption such as the exchange rate and other policies for example the salary increase and other operational budget. Furthermore, the change from the indicative budget ceiling or the budget ceiling to the budget allocation comes 100% from Parliament's intervention, but usually this [the percentage of change from previous budgets] is not much. (Head of Sub Directorate at the Office of the Deputy of Development Funding, the Ministry of Planning, Interview 52)

From the interviews, there is a strong conclusion that the most important budget decision made by the government is the indicative budget ceilings. The interviews suggested that the budget change between the indicative budget ceilings and the budget ceilings is minimal. Adjustments of the indicative budget ceilings may occur in the next budget stages, such as new initiatives proposed by line ministries/agencies, new directions from the President, the policy to increase salary of civil servants, the agreement between line ministries/agencies and the Parliament, and/or budget

optimisation requested by the Parliament. The interviewees also did not comment on the effect of performance information or RKAKL performance scores on all budget decision stages. In the indicative budget ceiling stage, the influence of the Parliament is limited or non-existent. Their influence on the budget decision would only exist in the later budget stages: the budget ceilings and the budget allocations stage.

We conclude from this discussion of budgets that we need to place most attention on the indicative budget ceilings decision in the statistical analysis of the influence of performance scores on budget allocations and the extent of incremental budgeting,

### **5.3 The Use of Performance Information in Preparing the Indicative Budget Ceilings**

In the previous section, the results of interviews suggested that the most important budget decision made by the government is the indicative budget ceilings. This section examines the use of performance information by government practitioners from both the Ministry of Planning and the Directorate General of Budget within the Ministry of Finance in preparing the indicative budget ceilings.

#### The Use of Performance Information in Preparing the Indicative Budget Ceilings by Government Practitioners in the Ministry of Planning

The researcher asked government practitioners from the various directorates within the Ministry of Planning about the use of performance information. It was found that the preparation of the indicative budget ceilings began some twelve months before the start of a budget year (the budget year starts at 1<sup>st</sup> January). Each directorate from



seven offices of deputies in the Ministry of Planning (referred to as ‘sector’ directorates’) has responsibility for managing the preparation of the indicative budget ceiling for one or more line ministries or agencies. Each year, officials from these directorates hold discussions with the practitioners from the line ministries/agencies under their responsibility.

An official from the Directorate of State Apparatus explained that a year before the budget begins, his directorate invites officials from line ministries/agencies to discuss their needs. He also explained that he asked the officials from the line ministries/agencies to present their line ministries/agencies’ achievements and to present what activities they have been executing in the current budget year. Another practitioner from the Directorate of Forestry has a similar comment.

In the beginning of the year, like this time [the interview was conducted on 13 January 2014], we always talk to line ministries asking, “Which programmes do you have for next year?” We conduct bilateral meetings with them. We review whether the [current] programmes have achieved their targets or not. (Head of the Directorate of Forestry, the Ministry of Planning, Interview 7)

Officials from the Ministry of Planning sought to obtain performance information from line ministries/agencies for preparing the indicative budget ceilings.

From the interviews, it was established that the Ministry of Planning was responsible for preparing the annual government work plan (RKP) as well as the indicative budget ceilings. Thus, the process of preparing the indicative budget ceilings is part of preparing the RKP. Government practitioners from the Ministry of Planning evaluated performance information of line ministries/agencies by considering past achievements and forecasting the current year’s achievement.

In preparing the draft of the annual government work plan (RKP), we evaluated the implementation of the previous year’s activities. In the evaluation we determined past achievements, the budget allocations, the forecast of the current

year's achievement, and forward budget estimates for the next budget year. (Head of Sub Directorate at the Directorate of Religion, Culture, Youth and Support, the Ministry of Planning, Interview 43)

An official from the Directorate of Forestry provided an example of how he used performance information, as the result of evaluating performance, to determine budget needs of a line ministry.

In the process of preparing the government annual work plan (RKP), we communicated with the line ministry. We evaluated its performance. For example if we saw that its performance in the previous budget year didn't achieve what was expected, we would propose a budget increase for the following budget year. The results of evaluation would bring consequences to the budget. Then we submitted the budget proposals to the Office of the Deputy of Development Funding. (Head of the Directorate of Forestry, the Ministry of Planning, Interview 7)

Two officials from the Directorate of Transportation and the Directorate of Water and Irrigation explained how they examined the performance achievement of a line ministry. They compared its performance targets specified in the five-year national development plan (RPJMN) and its performance report (LAKIP report). In addition, one of them also explained that he encouraged a line ministry to determine the unit cost of each activity as part of calculating its budget needs.

For the purpose of preparing the indicative budget ceilings, we knew the performance targets of the line ministry in the RPJMN, we also knew the achievement of its performance from the LAKIP. We then evaluated the remaining targets that should be achieved to calculate budget needs. We encouraged line ministries to forecast budget needs by determining unit costs for planning purposes. The process was continuous and tireless. (Head of Sub Directorate at the Directorate of Water and Irrigation, the Ministry of Planning, Interview 46)

It is worth noting that sometimes government practitioners from the Ministry of Planning obtained performance information during quarterly meetings with practitioners from line ministries/agencies, even though these meetings were not

particularly aimed at preparing the indicative budget ceilings. The officials might use this kind of information to determine the budget needs of a line ministry.

We had also communicated indirectly with line ministries/agencies in quarterly meetings. For example in discussing the implementation progress, they talked about what (targets or activities) they want to propose for the following budget year. (Head of Sub Directorate at the Directorate of Religion, Culture, Youth and Support, the Ministry of Planning, Interview 43)

The interviews also revealed that, as well as the past achievement and performance targets, officials from the Ministry of Planning also considered the medium term expenditure framework (MTEF) in calculating a budget for a line ministry/agency. This is the five-year budget forecast for every line ministry/agency that has been established in the national five-year plan (RPJMN) document. For example, in the RPJMN 2010-2014, a line ministry forecasted its annual budget need from 2010 to 2014. In addition, officials considered new policies and priorities in assessing budget needs for line ministries/agencies. The interviews also revealed that the officials from directorates that have a close relationship with the line ministries/agencies under their responsibility have no authority in determining the final amount of the indicative budget ceilings. They were only responsible for preparing budget proposals.

In preparing the indicative budget ceilings, we were guided by the MTEF [the Medium Expenditure Framework] to indicate the budget needs (of a line ministry). Then we reviewed the achievements of programmes, we compared them with the annual performance targets. We also took into account new policies, the level of priority of every policy to exercise budget needs. We were responsible for exercising budget needs or making budget proposals, but we didn't determine the [final] indicative budget ceiling. (Head of Sub Directorate at the Directorate of State Apparatus, the Ministry of Planning, Interview 19)

It was found that all directorates that have a role in the planning and budgeting process in the Ministry of Planning (referred to as 'sectors' directorates') must submit their indicative budget ceilings proposals or calculation to the Office of the Deputy of Development Funding in the Ministry of Planning. During this process,

there was a bilateral meeting between each directorate and the Office of the Deputy of Development Funding. This office then compiled calculations of the indicative budget ceilings from all sectors. One practitioner from the Directorate of Water and Irrigation explained that in determining budgets, this office must review all national priorities for the particular budget year.

The Office of the Deputy of Development Funding reviewed all national priorities for the particular budget year. We then received the feedback or the draft of the indicative budget ceilings of line ministries under our responsibility. We could give comments on the feedback from the Office of the Deputy of Development Funding based on data we have, such as performance targets and performance results (Head of Sub Directorate at the Directorate of Water and Irrigation, the Ministry of Planning, Interview 46).

One official from the Directorate of Religion Culture, Youth, and Sport suggested that in preparing the indicative budget ceiling, the Office of the Deputy of Development Funding conducted an evaluation of proposals from all directorates in the Ministry of Planning using its own method of calculation. Asked whether this office used performance information to determine budgets, an official from the Directorate of Water and Irrigation commented: “We used the results of performance evaluation in preparing the indicative budget ceilings, but I didn’t know about them in detail” (Head of Sub Directorate at the Directorate of Water and Irrigation, Interview 46).

The interviews also revealed that, during the process of preparing the indicative budget ceilings, there were communications between the Office of the Deputy of Development of Funding and the Directorate General of Budget within the Ministry of Finance. The sector directorates were not involved in these communications. In the end, most interviewees noted that the budgets needed by line ministries/agencies had never been fulfilled by the Ministry of Planning and the Ministry of Finance.

Our proposal of the indicative budget ceilings was submitted to the Deputy of the Development Funding. There were discussions between them and us but in the end they have the final decision. Usually it was lower than our proposal. (Head of Sub Directorate at the Directorate of Transportation, the Ministry of Planning, Interview 20)

In my opinion, the budgets that were needed to meet performance targets in the RPJMN have never been fulfilled from the resource envelope. According to my communication with one of the officials from the Office of the Deputy of Development Funding, they said that the total budget available (the resource envelope) is always smaller than total budget needs. (Head of Sub Directorate at the Directorate of Water and Irrigation, the Ministry of Planning, Interview 46)

An official from the Office of the Deputy of Development Funding explained that the main factor they considered in determining the indicative budget was the government work plan (RKP). The indicative budget ceilings were determined with the aim of achieving the goals or priorities of the government set out in its work plan. However, the Office of the Deputy of Development Funding has to consider how much money they have (the resource envelope), calculated by the Ministry of Finance (MOF), and all budget rigidities. The Ministry of Finance sets out the resource envelope based on the fiscal policies of the government. The official commented, ‘Our responsibility is to balance all government priorities and indicative budget proposals, the process is iterative’ (Head of the Office of the Deputy of Development Funding, Interview 39). He also acknowledged that using performance information in determining the budget is “a very difficult task”. He argued that the Ministry of Planning has implemented it gradually, by monitoring the achievement of performance targets that can be used for budgetary decision-making. However, he clearly stated that the use of performance information for determining the budget is unstructured. He further commented that his office did not use the RKAKL performance scores based on the Minister of Finance regulation 249/2011 because the results of evaluation are only based on financial information.

Asked whether the Office of the Deputy of the Development of Funding considered the calculations or proposals of the indicative budget ceilings from sector directorates, an official from the office explained that the Office of the Deputy of Development Funding did not use their proposals because he believed that the proposals were not reliable.

We received proposals of an indicative budget from other Directorates/Deputies, but we didn't use them because the proposals sometimes directly came from the line ministries. Sometimes Deputies review the proposals but they still adopt with same number [budget amount] as proposed by line ministries. (Head of Sub Directorate, the Office of the Deputy of Development Funding, the Ministry of Planning, Interview 52)

In conclusion, although other directorates claimed that they had used performance information in formulating indicative budget proposals, the Office of the Deputy of Development Funding did not use the results of evaluation in finalising the indicative budget.

If we accepted all proposals, our money [the resource envelope] would not be enough. The first approach we used was to secure the goals to be achieved by the government, what priorities we wanted to achieve. If there is enough money then we will see the request from line ministries. (Head of Sub Directorate, the Office of the Deputy of Development Funding, the Ministry of Planning, Interview 52)

One reason for the lack of use of performance information is that the Ministry of Planning does not have a good system to gather all necessary information. With regard to budget rigidities, an official from the Office of the Deputy of Development Funding in the Ministry of Planning noted that there were budget rigidities or budget constraints such as the requirement that the fulfilment budget for salary and allowances of civil servants, operational budgets (general and overhead expenditures), and mandatory expenditures, must be prioritised before determining the budget for other activities. Furthermore, another official of the Office of the Deputy of

Development Funding emphasised that there are no recognised formulae for determining the budget:

The formula we use in allocating budgets is non-existent. It happens in every country in the world, even in China. However, we share the same principles in allocating budgets such as distribution, political interests, the growth rate or others. However, the main focus is political interest. We do not have a certain formulation to take into account all factors; our focus is to achieve the goals or targets set out by the government. (Head of Sub Directorate, the Office of the Deputy of Development Funding, the Ministry of Planning, Interview 52)

### The Use of Performance Information in Preparing the Indicative Budget Ceilings by Government Practitioners in the Directorate General of Budget

The research also asked government practitioners from the Directorate General of Budget (DGB) within the Ministry of Finance (MOF) to reveal the range of performance information used by them. Government practitioners from the various directorates within the Directorate General of Budget were asked about the way in which indicative budget ceilings were prepared.

The interviews indicated that budget officials used various methods to prepare indicative budget ceilings. One official from the Directorate Budget III within the Directorate General of Budget explained that every year the Directorate General of Budget decides a norm to be used in preparing the indicative budget ceilings. He explained how he prepared the most recent budget.

Usually, [in preparing the indicative budget ceilings] we used data from previous budget years. Now if we are preparing the indicative budget ceilings for 2015, then we use budget data of 2014 to prepare it. Our role is to adjust the budget data of 2014 according to rules/norms agreed within the Directorate General of Budget. For example, that is what we have to do with personnel expenditures. (Head of Section at the Directorate of Budget III, the Directorate General of Budget, Interview 29)

A practitioner from the Directorate of Budget II explained that he reviewed the baseline budget in preparing the indicative budget ceilings. He then commented that practices in reviewing the baseline were diverse. Every output in the budget proposal documents of line ministries/agencies (RKAKLs) was reviewed to identify which activities were recurrent and still need a budget, and which activities had been concluded and no longer needed a budget.

Another Head of Section at the Directorate of Budget I stated that his office was requested to make calculations and scenarios for indicative budget ceilings. However, that was only required for the operational budget, which includes personnel expenditures and operational expenditures. They did not make scenarios for the non-operational budget. He further said that, in making the scenarios, he started with the previous years' budget spending of line ministries/agencies. His colleague from the same directorate also explained that in preparing the indicative budget ceilings, he only focused on determining the operational budget, including such things as personnel expenditures, because the Ministry of Planning is responsible for determining the non-operational expenditures. However, he mentioned that the top management within the Directorate General of Budget required its staff to have a greater understanding of the non-operational budgets. Another official from the Directorate of Budget III noted that there were internal discussions to finalise the budgets before the indicative budget ceilings were approved by the Minister of Finance and the Minister of Planning.

When asked whether they used performance information in preparing the indicative budget ceilings, one official from the Directorate of Budget III explained that they



used the previous years' budget spending data, not the realisation of outputs. Another practitioner made a similar comment about the limitation of performance information use in preparing indicative budget ceilings.

In practice any information in RKAKLs [work plan and budget documents of line ministries/agencies] is rarely used to determine the budget except any recent issues that were informed by line ministries/agencies such as when they planned to build a new office, then we allocated the budget for that. (Head of Section at the Directorate of Budget I, the Directorate General of Budget, Interview 24)

This interviewee made an interesting comment on how the Directorate General of Budget determining the budgets.

We determine the budgets the old-fashioned way, using the same percentage. I agree that we should differentiate budget allocations for ministries/agencies that could spend 90% of their previous year's budget with ministries/agencies that could only spend 70% of their previous year's budget. [But] to be honest, for 2014, they all were given the same percentage. (Head of Section at the Directorate of Budget I, the Directorate General of Budget, Interview 24)

The practitioner also commented that the role of budget officials within the Directorate General of Budget in determining budget allocation was not effective because they relied heavily on the resource envelope or the funds available. When asked whether line ministries/agencies were actively involved in the process of determining indicative budget ceilings, he explained that they were not. However, for urgent matters he definitely contacted them. For example, regarding the calculation of the personnel budget he required confirmation from line ministries/agencies as to whether or not there was an increase in the number of employees. He compared how the Directorate General Budget and the Ministry of Planning work in preparing the budget.

The difference between the Directorate General of Budget and the Ministry of Planning is that we in the Directorate General of Budget evaluated past budget documents (RKAKLs) to determine budget needs of line ministries. Whereas

the Ministry of Planning invited line ministries to discuss their planning for the next budget year. We have never invited line ministries. (Head of Section at the Directorate of Budget I, the Directorate General of Budget, Interview 24)

Overall, these results indicate that government officials at sector directorates in the Ministry of Planning had used performance information of line ministries/agencies by considering past achievements and forecasting the current year's achievement for formulating the indicative budget ceilings. However, the Office of the Deputy of Development Funding did not use the results of evaluation in finalising the indicative budget. It is recognised that the use of performance information in determining the budget is a very difficult task. This seems to be a reason why the use of performance information for determining the budget is unstructured. The interviews also show that there are no recognised formulae for determining the budget.

Furthermore, the results of interviews with government officials from the Directorate General of Budget also indicate the limitation of the use of performance information in preparing the indicative budget ceilings. Officials mainly focused on determining the operational budget and used the previous years' budget spending of line ministries/agencies in formulating their budget. It is also seen that the role of budget officials in the Directorate General of Budget in determining budgets was ineffective because they relied heavily on the resource envelope or the funds available. The budgets needed or requested by line ministries/agencies are always greater than the resource envelope. The results of interviews also indicate that there were budget rigidities or budget constraints requiring the fulfilment of operational budgets and mandatory budgets before budgets were allocated for other activities. In addition, there is an indication of the existence of incremental budgeting practice, such as the

use of past budget allocations and the use of same percentage in budget allocations of line ministries/agencies.

#### **5.4 Analysis of Factors Affecting Budget Allocations**

This section discusses findings related to factors affecting budget allocations. The findings are collected by examining the regulations related to the budgeting process, interviews with government officials from the Ministry of Planning, the Ministry of Finance, line ministries/agencies, and survey to government practitioners from line ministries/agencies. This section is not only focuses on the use of performance information as one factor affecting budget decisions but also identifies other factors affecting budget decisions. In addition, this section also examines the practice of incremental budgeting by looking at the whole ranges of factors affecting budget allocations.

##### The Examination of the Regulations Related to the Budgeting Process

We examined Government Regulation 90/2010 and various Minister of Finance decrees, for example the Ministry of Finance decree 94/2013, concerning the guidelines for preparing and reviewing the work plans and budget documents of line ministries/agencies (RKAKL) to identify factors that should be used by the Ministry of Planning and the Ministry of Finance in determining the indicative budget ceilings, the budget ceilings, and the budget allocations.

In preparing the indicative budget ceilings, these regulations and decrees specify that the Ministry of Planning and the Ministry of Finance should consider the policies of the President, the national development priorities that stated in the government work

plan (RKP), and the fiscal capacity. The Ministry of Planning and the Ministry of Finance then evaluate the current programmes and activities; analyse the new initiatives proposed by line ministries/agencies; adjust the baseline budget; and consider fiscal capacity. The indicative budget ceilings are determined based on a consideration of these factors and a combination of the forward estimates, the baseline budget adjustment, and the new initiatives. The baseline budget is defined as the budget indication that should be provided to implement programmes/activities that aligned with the government policies and expected targets (Directorate of the State Budget Preparation, 2014, p. 216).

In preparing the budget ceilings, the Ministry of Finance considers the following factors: the fiscal capacity; the indicative budget ceilings; the work plans and budget documents of line ministries/agencies (RKAKL); the results of performance evaluation; and the directives of the President. The budget ceilings are decided based on a consideration of these factors and a combination of the indicative budget ceilings, the baseline budget adjustment, and the new initiative proposal.

The Ministry of Finance prepares the budget allocations based on the agreement between the government and the Parliament regarding the draft of the state budget (APBN), the baseline budget adjustment, and the new initiatives.

In summary, with regards to the use of performance information for budget decisions, these regulation and decrees imply that the Ministry of Planning and the Ministry of Finance should use the results of performance evaluation, in the form of RKAKL

performance scores, for determining the indicative budget ceilings and the budget ceilings.

The Examination of the Minister of Planning and the Minister of Finance's Letters Related to the Indicative Budget Ceilings, the Budget Ceilings, and the Budget Allocations for the Period 2011-2014

We continue examining the letters/decrees of the Minister of Planning and the Minister of Finance related to the issuance of the indicative budget ceilings, the budget ceilings, and the budget allocation for the budget year of 2011-2014. The examination reveals that although factors affecting the three resource allocations are varied from year to year they can nevertheless be classified into six groups as summarised in Table 5.1.

**Table 5.1: Factors Affecting Budget Allocations: the Evidence from the Examination of the Minister of Planning and the Minister of Finance's Letters 2011-2014**

No.	Factors Affecting Budget Allocations	2011*			2012*			2013*			2014*
		IBC	BC	BA	IB	BC	BA	IB	BC	BA	IB
1.	The decision of the Minister of Planning and the Minister of Finance based on the policies of the President, the agreement in cabinet meetings, and budget priorities.	Yes			Yes			Yes			Yes
2.	The new initiative proposals				Yes			Yes			Yes
3.	The proposals from ministries/agencies to revise budget priorities		Yes			Yes			Yes		
4.	The forward estimates which documented in the previous year's budget allocations							Yes			Yes
5.	The previous year's budget spending estimation							Yes			Yes
6.	The agreement between the government and the parliament related to:		Yes	Yes		Yes	Yes		Yes	Yes	
	a. Budget reallocations from other budgets.		Yes	Yes		Yes	Yes			Yes	
	b. Budget adjustments from the loan and grant budget and the non-tax revenues budget		Yes	Yes		Yes	Yes		Yes		
	c. The education budget			Yes			Yes			Yes	
	d. Other budget adjustments		Yes	Yes			Yes			Yes	
	e. Adjustment for personnel budgets (salary and allowances)					Yes			Yes		

Note \*: IBC is the indicative budget ceilings; BC is the budget ceilings; and BA is the budget allocations. The researcher did not examine the letters of the Minister of Finance concerning the budget ceilings of 2014 and the budget allocations of 2014.

As can be seen from Table 5.1, every budget year, the Ministry of Planning and the Ministry of Finance determine the indicative budget ceiling of each line ministry/agency based on the policies of the President, agreement in cabinet meetings and the budget priorities. The indicative budget ceilings are also affected by the new initiatives proposed by ministries/agencies that have been approved by the Ministry of Planning and the Ministry of Finance. After receiving the indicative budget ceiling, each line ministry/agency might propose the change of budget allocated for each programme but it cannot propose the change of its whole budget that exceeds the indicative budget ceilings. They can only propose any additional budgets using other mechanism such as proposing new initiatives before the issuance of the budget ceilings.

Starting from the budget year of 2013, the Ministry of Planning and the Ministry of Finance also determine the indicative budget ceilings based on the forward estimates as reported by all line ministries/agencies in their previous year's budget documents. For example, when determining the indicative budget for budget year 2013, the Ministry of Planning and the Ministry of Finance also considered the forward estimates for that year as recorded in the budget documents of fiscal year 2012. In addition, the indicative budget ceilings are also determined using the estimate of previous year's budget spending. However, two government officials at the Directorate of Budget I and II in the Directorate General of Budget (Interview 24 and 28) argued that their office could not use the forward estimates recorded in budget documents of line ministries/agencies because these forward estimates were not accurate.

With regards to the factors affecting the budget ceilings and the budget allocations, our research reveals that there are at least five factors that affect budget change from the indicative budget ceilings to the budget ceilings and the budget allocations. These factors are: the reallocation from other budgets to particular ministry/agency; budget adjustments to cover activities funded by non-tax revenue, loan, or grant; budget adjustment to add education budgets as required by law; other budget adjustments; and budget adjustment for personnel's salary and allowances.

Furthermore, as shown in Table 5.1, both the Ministry of Planning and the Ministry of Finance did not use the results of performance measurement and evaluation, or the RKAKL performance scores, for determining the indicative budget ceilings, the budget ceilings, and the budget allocations. However, it was found that they used future performance targets, such as the policies of the President, the new initiative proposals, and proposals from line ministries/agencies to revise budget priorities.

#### The Results of Survey and Interviews with Government Practitioners from Line Ministries/Agencies

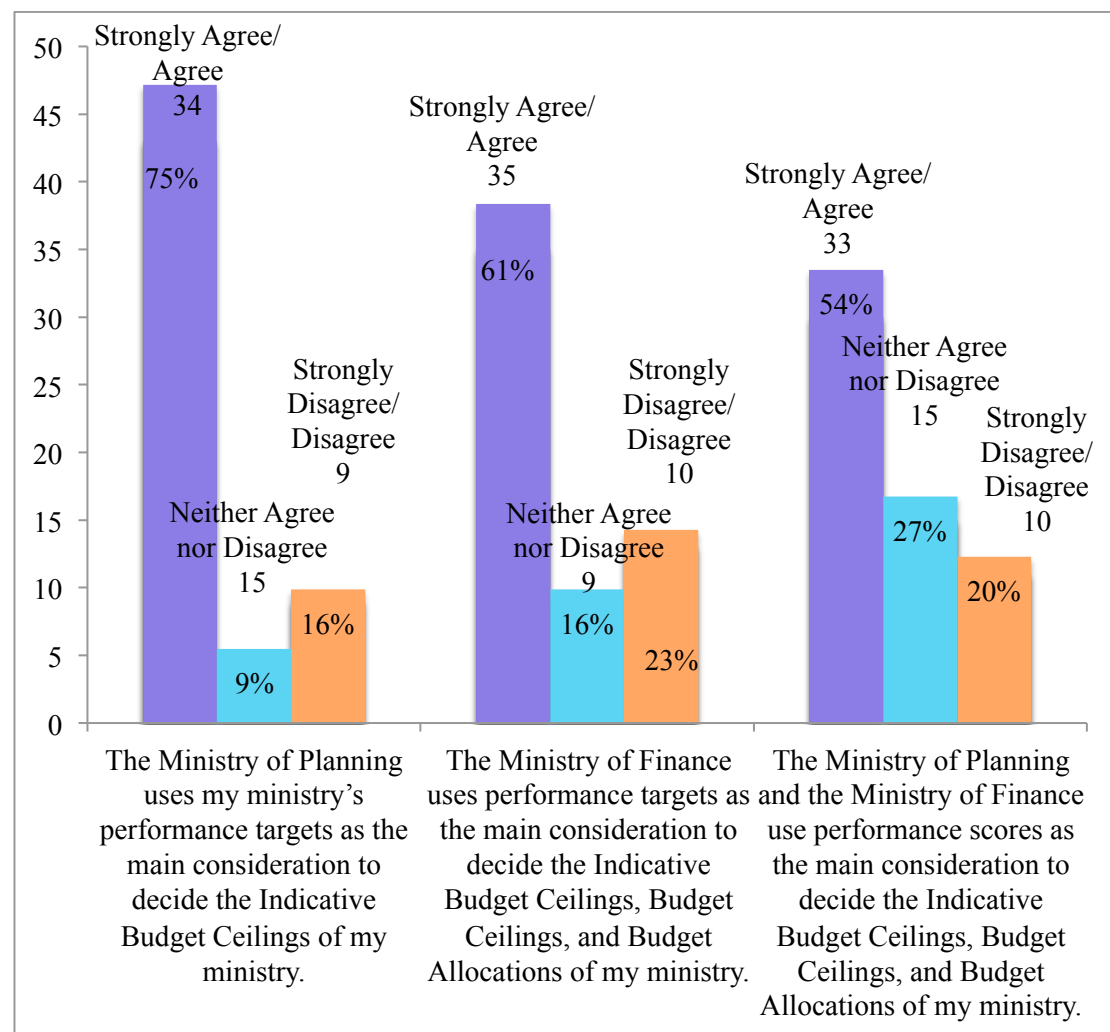
In the questionnaire to government practitioners from line ministries/agencies, we asked whether government officials from the Ministry of Planning and the Ministry of Finance used performance information in determining budget allocations. The results of the questionnaire can be seen in Figure 5.1. When the respondents were asked whether they agreed with the statement, 'the Ministry of Planning uses my ministry's performance targets as the main consideration to decide the Indicative Budget Ceilings for my ministry', three quarter of respondents (n= 34) strongly agreed/agreed and only 16% of respondents (n= 9) strongly disagreed/disagreed with this statement.

When they were asked whether ‘the Ministry of Finance uses performance targets as the main consideration to decide the Indicative Budget Ceilings, Budget Ceilings, and Budget Allocations of their ministry/agency’, 61% of respondents (n= 35) strongly agreed/agreed. Almost a quarter of the respondents (23% or n= 10) strongly disagreed/disagreed with this statement. It can be concluded that government practitioners of line ministries/agencies generally believed that the Ministry of Planning and the Ministry of Finance had used performance targets for determining budget allocations of line ministries/agencies.

When the respondents were asked about the statement, ‘The Ministry of Planning and the Ministry of Finance use RKAKL performance scores as the main consideration to decide the Indicative Budget Ceilings, Budget Ceilings, and Budget Allocations of my ministry’, only 54% (n= 33) strongly agreed/agreed. One fifth of the respondents (n= 10) strongly disagreed/disagreed and more than a quarter of the respondents neither agreed nor disagreed with this statement. Thus, it is implied that the respondents from line ministries/agencies were not certain whether the Ministry of Planning and the Ministry of Finance use RKAKL performance scores for determining their budgets.



**Figure 5.1: The views of government practitioners from line minister/agencies about the use of performance information by the Ministry of Planning and the Ministry of Finance for determining budget allocations**



The respondents of the survey were also prompted with twelve possible factors that might affect budget allocations. The researcher gathered these twelve possible factors mainly from an examination of Government Regulation 90/2010, examination of various letters of the Minister of Planning/the Minister of Finance related to the planning and budgeting process, and the previous experience of the researcher when managing the planning and budgeting process in his office.

The twelve possible factors are: (1) the previous year(s) budget spending; (2) the previous year(s) budget allocations; (3) the annual policies of the President; (4) the annual baseline adjustment by line ministries/agencies; (5) the informal discussions and negotiations between line ministries/agencies officials and the Ministry of Planning and/or the Ministry of Finance officials before the issuance of budget allocations; (6) the informal negotiations between line ministries/agencies officials and Member(s) of Parliament before the issuance of budget allocations; (7) budget proposals for new initiatives from line ministries/agencies; (8) the budget projection stated in Medium Term Expenditure Framework (MTEF) 2010-2014; (9) the results of the work plan and budget documents (RKAKL) review meetings; (10) the agreement between line ministries/agencies and the Parliament in budget meetings; (11) the performance targets in line ministries/agencies' work plan (RENSTRA-KL) and RKAKL documents; and (12) RKAKL performance scores based on the Minister of Finance Regulation 249/2011. Factors number 11 and 12 are regarded as performance information. The researcher then asked respondents to rank these factors from most important to least important. They were also invited to add other factors that might affect budget allocations.

Fifty-six respondents answered this question and their answers were varied. From the responses, the researcher summarised and ranked the factors as perceived by the respondents. The summary of the analysis is set out in Table 5.2.

**Table 5.2: Ranking of factors affecting budget allocations: The Evidence from government practitioners of line ministries/agencies**

Factors affecting budget allocations	Total Scores	Rank
(3) The annual policies of the President.	176	1
(4) The annual baseline adjustment by line ministries/agencies.	250	2
(2) The previous year(s) budget allocations.	278	3
(8) The budget projection stated in Medium Term Expenditure Framework (MTEF) 2010-2014.	300	4
(1) The previous year(s) budget spending.	301	5
(11) The performance targets in line ministries/agencies' work plan (RENSTRA-KL) and RKAKL documents.	304	6
(7) Budget proposals for new initiatives from line ministries/agencies	373	7
(9) The results of the work plan and budget documents (RKAKL) review meetings	422	8
(12) RKAKL performance scores based on the Minister of Finance Regulation 249/2011.	446	9
(10) The agreement between line ministries/agencies and the Parliament in budget meetings.	467	10
(5) The informal discussions and negotiations between line ministries/agencies officials and the Ministry of Planning and/or the Ministry of Finance officials before the issuance of budget allocations	481	11
(6) The informal negotiations between line ministries/agencies officials and Member(s) of Parliament before the issuance of budget allocations.	567	12

(Source: Author analysis from the questionnaire results).

In addition, we also summarised and analysed which factors were selected by the respondents as the number one factor affecting budget allocations. The summary of the analysis is set out in Table 5.3.

**Table 5.3: The most important factors affecting budget allocations: The Evidence from government practitioners of line ministries/agencies**

<b>Factors affecting budget allocations</b>	<b>Number of respondents who ranked this factor as number one factor</b>
(1) The previous year(s) budget spending.	17 (30%)
(3) The annual policies of the President	10 (18%)
(4) The annual baseline adjustment by line ministries/agencies	9 (16%)
(8) The budget projection stated in Medium Term Expenditure Framework (MTEF) 2010-2014	7 (13%)
(2) The previous year(s) budget allocations.	6 (11%)
Other factors	7 (12%)
<b>Total respondents answered this question</b>	<b>56 (100%)</b>

(Source: Author analysis from the questionnaire results).

In summary, as can be seen from Table 5.2 and Table 5.3 (above), the respondents from line ministries/agencies thought that performance information, in the form of performance targets and performance scores, was not considered as being one of the top five factors affecting budget allocations by government officials in the Ministry of Planning and the Ministry of Finance. However, if we consider annual policies of the President as planned or future performance targets then the respondents believed that the officials in the Ministry of Planning and the Ministry of Finance considered this one of the most important factors affecting budget allocation. Interestingly, past budget decisions, in the form of the previous year's budget allocations, were still regarded as an important factor affecting budget allocations. It can be concluded that, from this part of the interview research, performance information is not in practice being used in determining budget allocations, and that it might be expected that the practice of incremental budgeting still affects budget allocation decisions. We turn to this question next.

### The Results of Interviews with Government Officials/Practitioners from the Ministry of Planning and the Ministry of Finance

In the interviews with government officials from the Ministry of Planning and the Directorate General of Budget in the Ministry of Finance, the researcher prompted officials with twelve possible factors that might affect budget allocations. This is the same list of possible factors that was prompted to the survey's respondents from line ministries/agencies. The researcher then asked them to rank these factors from most important to least important. The interviewees were also invited to add other factors that might affect budget allocations. Because of time limitation, not every official could answer fully. Most interviewees only provided the ranking from number 1 to 5. Some interviewees also suggested other factors that they thought affect budget allocations. We then took into account of these new factors for analysis. Therefore, in analysing the results, the researcher decided to take only the first five factors they thought are significant factors in deciding budget allocations. All remaining factors were given the rank number 6. The results of analysis can be seen in Table 5.4 for the evidence gathered from government officials of the Ministry of Planning and Table 5.5 for the evidence gathered from the government officials of the Directorate General of Budget in the Ministry of Planning.

As can be seen in Table 5.4, according to the evidence from the Ministry of Planning, the five most important factors affecting the indicative budget ceilings are: (1) the annual policies of the President; (2) the previous year(s) budget allocations; (3) the budget projection stated in Medium Term Expenditure Framework (MTEF) 2010-2014; (4) the results of trilateral meeting; and (5) the previous year(s) budget spending. Performance information (i.e. in the form of performance targets and

RKAKL performance scores) was not included in the five most important factors affecting budget allocations. However, performance targets in line ministries/agencies' work plans (RENSTRA-KL) and RKAKL documents are in rank 6 as the factor affecting budget allocations. As the Ministry of Planning is only responsible for issuing the indicative budget ceilings, in their case, government officials from the Ministry of Planning considered performance targets when determining the indicative budget ceilings. However, government officials of the Ministry of Planning made less consideration of the RKAKL performance scores when they allocated the indicative budget ceilings of line ministries/agencies (ranked 9 in Table 5.4).

**Table 5.4: Ranking of factors affecting budget allocations: The Evidence from the Ministry of Planning Officials**

Factors	The Ministry of Planning Officials Interviewee Number and Ranking of Each Factor					Total Scores	Rank
	07	15	19	20	52		
(3) The annual policies of the President.	6	1	1	2	1	11	1
(2) The previous year(s) budget allocations.	1	5	5	4	2	17	2
(8) The budget projection stated in Medium Term Expenditure Framework (MTEF) 2010-2014.	3	2	6	1	6	18	3
Other factor: The results of trilateral meeting	6	4	3	6	4	23	4
(1) The previous year(s) budget spending.	5	6	6	3	5	25	5
(11) The performance targets in line ministries/agencies' work plan (RENSTRA-KL) and RKAKL documents.	6	3	4	6	6	25	6
(4) The annual baseline adjustment by line ministries/agencies.	2	6	6	6	6	26	7
(5) The informal discussions and negotiations between line ministries/agencies officials and the Ministry of Planning and/or the Ministry of Finance officials before the issuance of budget allocations	6	6	2	6	6	26	8
(12) RKAKL performance scores based on the Minister of Finance Regulation 249/2011.	4	6	6	5	6	27	9
(7) Budget proposals for new initiatives from line ministries/agencies	6	6	6	6	3	27	10
(6) The informal negotiations between line ministries/agencies officials and Member(s) of Parliament before the issuance of budget allocations.	6	6	6	6	6	30	11
(9) The results of the work plan and budget documents (RKAKL) review meetings	6	6	6	6	6	30	12
(10) The agreement between line ministries/agencies and the Parliament in budget meetings.	6	6	6	6	6	30	13

Note: The evidence from the Ministry of Planning officials are for the indicative budget ceilings only. (Source: Author analysis from the interview results).

Turning to Table 5.5, according to the evidence from the Directorate General of Budget officials in the Ministry of Finance, the five most important factors affecting the budget ceilings are: (1) the annual policies of the President; (2) the previous year(s) budget spending; (3) the previous year(s) budget allocations; (4) budget proposals for new initiatives from line ministries; and (5) the annual baseline adjustment by line ministries/agencies. Again, similar to evidence from the Ministry of Planning, performance information (i.e. in the form of performance targets and RKAKL performance scores) is not included in the five most important factors affecting budget allocations. Performance targets in the line ministries/agencies' work plan (RENSTRA-KL) and RKAKL documents, and RKAKL performance scores based on the Minister of Finance Regulation 249/2011 are only ranked in position 11 and 12 respectively. Therefore, as the Directorate General of Budget in the Ministry of Finance is responsible to determine the three resource allocations (indicative budget ceilings, the budget ceilings, as well as the budget allocations), performance information (both performance targets and performance scores) is least considered by the government officials in that ministry for determining budgets of line ministries/agencies.

**Table 5.5: Ranking of factors affecting budget allocations: The Evidence from the Ministry of Finance Officials**

Factors affecting budget allocations	The Ministry of Finance Officials Interviewee Number and Ranking of Each Factor									Total Scores	Rank
	24	25	26	27	28	29	30	31	32		
(3) The annual policies of the President.	1	4	3	2	2	6	4	3	1	26	1
(1) The previous year(s) budget spending.	6	1	1	6	5	2	1	6	3	31	2
(2) The previous year(s) budget allocations.	6	2	2	6	6	3	2	5	2	34	3
(7) Budget proposals for new initiatives from line ministries/agencies	3	6	6	3	3	4	6	4	4	39	4
(4) The annual baseline adjustment by line ministries/agencies.	6	3	6	1	6	1	6	6	6	41	5
(10) The agreement between line ministries/agencies and the Parliament in budget meetings.	4	6	6	4	6	6	6	2	6	46	6
(6) The informal negotiations between line ministries/agencies officials and Member(s) of Parliament before the issuance of budget allocations.	6	6	6	6	6	6	3	1	6	46	7
Other factor: The Directorate General of Budget adjusted the baseline budget.	2	6	6	6	6	6	6	6	5	49	8
Other: The review of existing outputs by the Directorate General of Budget.	6	6	6	6	1	6	6	6	6	49	9
(9) The results of the work plan and budget documents (RKAKL) review meetings	5	6	6	5	6	6	6	6	6	52	10
(11) The performance targets in line ministries/agencies' work plan (RENSTR-KL) and RKAKL documents.	6	6	6	6	4	6	6	6	6	52	11
(12) RKAKL performance scores based on the Minister of Finance Regulation 249/2011.	6	6	6	6	6	6	5	6	6	53	12
Other: The results of trilateral meeting.	6	6	6	6	6	5	6	6	6	53	13
(8) The budget projection stated in Medium Term Expenditure Framework (MTEF) 2010-2014.	6	5	6	6	6	6	6	6	6	53	14
(5) The informal discussions and negotiations between line ministries/agencies officials and the Ministry of Planning and/or the Ministry of Finance officials before the issuance of budget allocations	6	6	6	6	6	6	6	6	6	54	15

Note: The evidence from the Ministry of Finance officials is not necessarily for the indicative budget ceilings, but also covers the budget ceilings and the budget allocations. (Source: Author analysis from the interview results).

Table 5.6 summaries the five most important factors affecting budget allocations as suggested by the interviewees from the Ministry of Planning and the Directorate General of Budget. As can be seen in this table, the past budget decisions (i.e.



previous year(s) budget allocations) still play important roles in affecting budget allocations. According to the interviewees from the Ministry of Planning and the Ministry of Finance, the previous year(s) budget allocations are the second and the third most important factor respectively used by them for determining budget allocations. This evidence indicates that incremental budgeting still plays an important role in the Indonesian planning and budgeting process.

**Table 5.6. The Five Most Important Factors Affecting Budget Allocations**

Rank	Evidence from the Ministry of Planning Officials	Evidence from of the Ministry of Finance Officials
1	The annual policies of the President.	The annual policies of the President.
2	The previous year(s) budget allocations.	The previous year(s) budget spending.
3	The projected budget as stated in the Medium Term Expenditure Framework (MTEF) 2010-2014	The previous year(s) budget allocations.
4	Other: The results of trilateral meeting	Budget proposals for new initiatives from line ministries/agencies
5	The previous year(s) budget spending.	The annual baseline adjustment by line ministries/agencies.

Note: The evidence from the Ministry of Planning officials is for the indicative budget ceilings only. The evidence from the Ministry of Finance officials are not necessarily for the indicative budget ceilings, but also for the budget ceilings and the budget allocations. (Source: Author analysis from the interview results).

In summary, as shown in Table 5.6, the interviewees from the Ministry of Planning and the Ministry of Finance, suggested that performance information, both performance targets and RKAKL performance scores, were not included in top five factors affecting budget allocation decisions. Therefore, the opinion of government practitioners from line ministries/agencies is parallel with the opinion of officials from the Ministry of Planning and the Ministry of Finance. The finding also indicates that previous year(s) budget allocations still play an important role in determining

budget allocations of line ministries/agencies. It can be concluded that our interview work indicates that incremental budgeting practice still has a role in the performance-based budgeting environment in Indonesia.

### **5.5. Statistical Analysis of the Effect of RKAKL Performance Scores on Budget Allocations**

As shown in the previous sections, there is aspiration in the government regulations towards using the result of performance evaluation (RKAKL performance scores in this case), as one of many factors, in determining the indicative budget ceilings and the budget ceilings. However, the interviews in the qualitative analysis, in the previous sections, found that RKAKL performance scores had not been used by government officials in either the Ministry of Planning or the Ministry of Finance in the process of determining budget allocations. Results indicated that they did not use RKAKL performance scores for determining either the indicative budget ceilings or the budget ceilings. In this section, we use basic statistical analysis to see whether it confirms this lack of influence of RKAKL performance scores on which budget allocations.

We therefore examine the relationship between RKAKL performance scores and resource allocations using simple statistical analysis. Our model relies on annual budgetary data at the ministry level and at the lower programme level over the period of 2012-2014 and RKAKL performance scores for the period of 2011 and 2012.

As discussed in the previous section, there is a strong conclusion from the interviews with government officials of the Ministry of Planning and the Directorate General of

Budget that the indicative budget ceilings are of greater importance than the other two budget decision stages: the budget ceilings and the budget allocations. Therefore, in examining the relationship between RKAKL performance scores and budget allocations, we focus on on the indicative budget ceilings looking at their the percentage change as compared to the budget allocations in the previous year.

For this analysis, we use budget data of the percentage change in the indicative budget ceilings of 2013 and 2014 on the previous year's budget allocations as the dependent variable, and RKAKL performance scores 2011 and 2012 as the independent variable. These correlation between the variables should reflect the impact of performance scores on resource allocations.

We now set out our discussion of the impact of RKAKL performance scores on the indicative budget ceilings 2013-2014 at the ministry level and at the programme level.

#### The Impact of RKAKL Performance Scores on the Indicative Budget Ceilings 2013-2014 at the Ministry/Agency Level

In total, we have 165 observations of the percentage change in the indicative budget ceilings in relation to the previous year's budget allocations from two budget years, 79 observations from 2013 and 86 observations from 2014. The highest budget change from these two years is 114.22% and the lowest is -89.20% with an average change of -0.16%. The highest budget change for the indicative budget ceilings 2013 is 114.22%, the lowest change is -30.58%, with an average change of 10.18%. In the

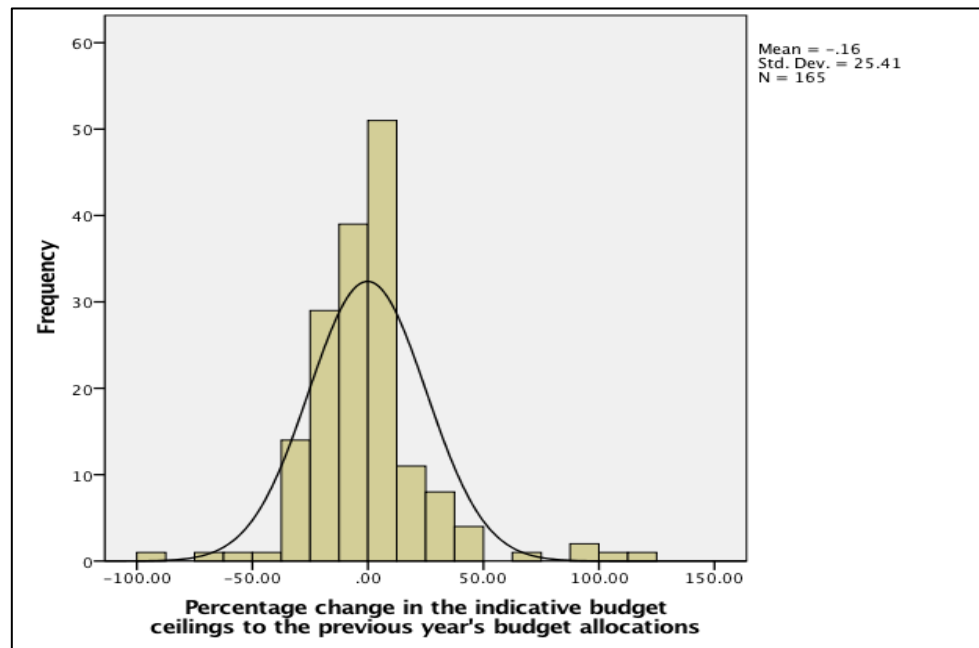
indicative budget ceilings 2014, the highest budget change is 101.29%, the lowest is -89.20% with an average change of -9.66%.

The independent variable is total RKAKL performance score for each line ministry/agency. We hypothesise that the Ministry of Planning and the Ministry of Finance used performance scores of 2011 for determining the indicative budget allocations for 2013. We also hypothesise that the budget authorities used those performance scores 2012 in 2013 for determining the indicative budget allocations for 2014.

For both RKAKL performance scores 2011 and 2012, the highest and the lowest scores of the full sample of 165 cases are 142.51 and 20.29 respectively, with an average score of 78.49. The highest and the lowest performance scores in 2011 are 99.52 and 29.57 respectively, with an average score of 74.53. Whereas the highest and the lowest scores in 2012 are 142.51 and -20.29 respectively, with an average score 82.12. From these performance scores data we know that there are line ministries/agencies that achieved scores of more than 100. This condition is somewhat surprising because the Minister of Finance Regulation 249/2011 specifies that the ranges of total RKAKL performance scores are between 0 and 100. In our analysis we include all cases even though some have performance scores greater than 100.

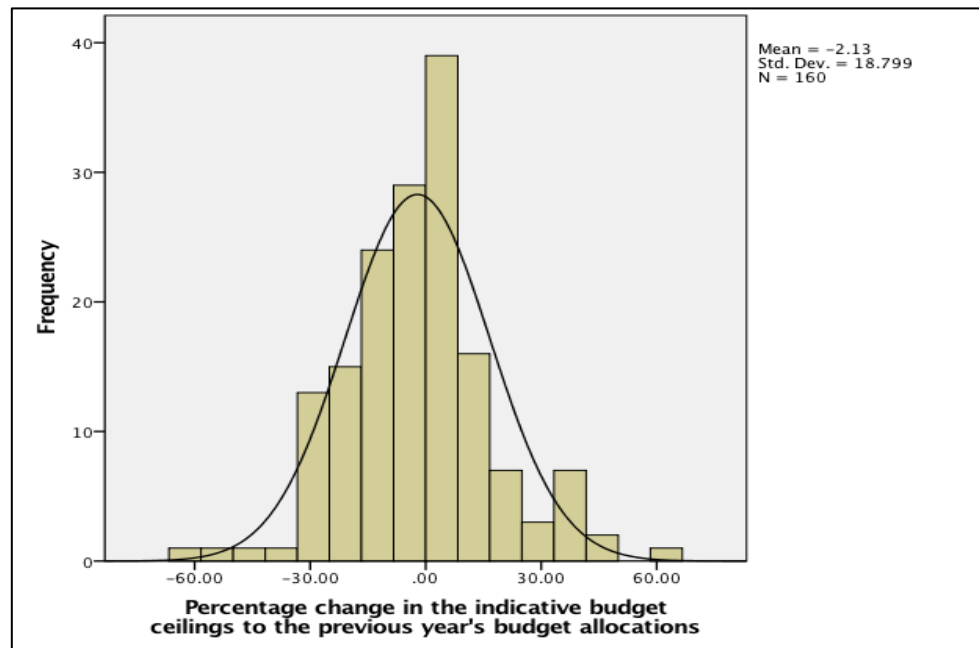
The histogram of the percentage change in the indicative budget ceilings 2013-2014 can be seen in Figure 5.2.

**Figure 5.2: Histogram of the Indicative Budget Ceilings Changes 2013-14 to the Budget Allocations 2012-13 (Full Sample at Ministry/Agency Level)**



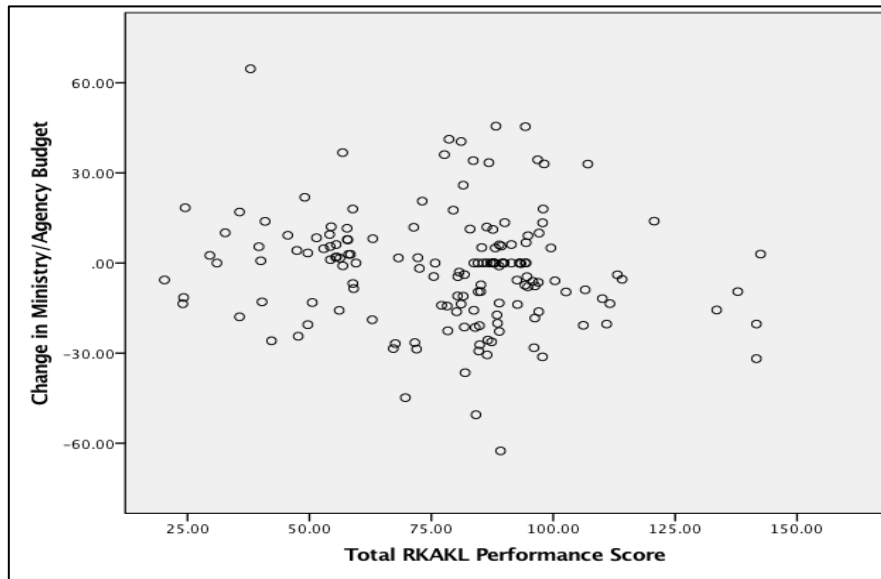
As shown in histogram in Figure 5.2, there are several outlier cases in our data. Gilmour and Lewis (2006, p. 176) made a choice of excluding cases where budget changes are greater than 100%. They also suggested excluding cases with changes greater than 50% of a ministry's budget. However, we make an arbitrary choice to exclude budget changes that are greater than 75%. There are five cases where are greater than 75% and we excluded these, leaving 160 cases in our statistical analysis. The histogram after we excluded five outliers can be seen in Figure 5.3.

**Figure 5.3: Histogram of the Indicative Budget Ceilings Changes 2013-14 to the Budget Allocations 2012-13 (Truncated Sample at Ministry/Agency level)**



The histogram in Figure 5.3 looks less skewed and more normal than the histogram with full sample in Figure 5.2. We continue our analysis by looking the Pearson correlation between the budget change and performance scores. In Figure 5.4 we graph the bivariate relationship between total RKAKL performance score and percentage change of the indicative budget ceilings in 2013 and 2014.

**Figure 5.4: Impact of RKAKL performance scores 2011-12 on the indicative budget ceilings 2013-14 (at Ministry/Agency level)**



As shown in Figure 5.4, RKAKL performance scores do not appear influence the size of the indicative budget ceilings change for a ministry/agency in 2013 and 2014. In fact the Pearson correlation coefficient between the two variables is negative ( $r = -0.136$ ) and is not significant ( $p < 0.05$ ). We report the Pearson correlation coefficient because it is equal to the standardised regression coefficient in a bivariate regression. The standardised regression coefficient is more useful than the unstandardized regression coefficient as it is independent of the units of measurement. The units of measurement do not enhance understanding in these regressions, so the standardised variable is used.

In summary, the statistical analysis of percentage change of the indicative budget ceilings indicates that we cannot reject the null hypothesis that RKAKL performance scores do not influence the change of indicative budget ceilings at ministry/agency level. This is not a strong result as classical inference means that strong evidence is needed to reject the null of no effect. What we have found is an absence of evidence

that RKAKL performance scores influence changes in budgets. In this weak sense, this finding is consistent with our findings from the interviews with government officials from the Ministry of Planning, the Ministry of Finance, and line ministries/agencies.

We continue examining the impact of RKAKL performance scores on the indicative budget ceilings at sub ministry/agency programme level.

#### The Impact of RKAKL Performance Scores on the Indicative Budget Ceilings 2013-2014 at Programme Level

As discussed earlier in the previous chapters, there are 86 line ministries/agencies in Indonesian central government that receive budget allocations. Each ministry/agency manages at least one programme. For analysis, we use budget and performance data from 837 programmes over the period 2011-2014.

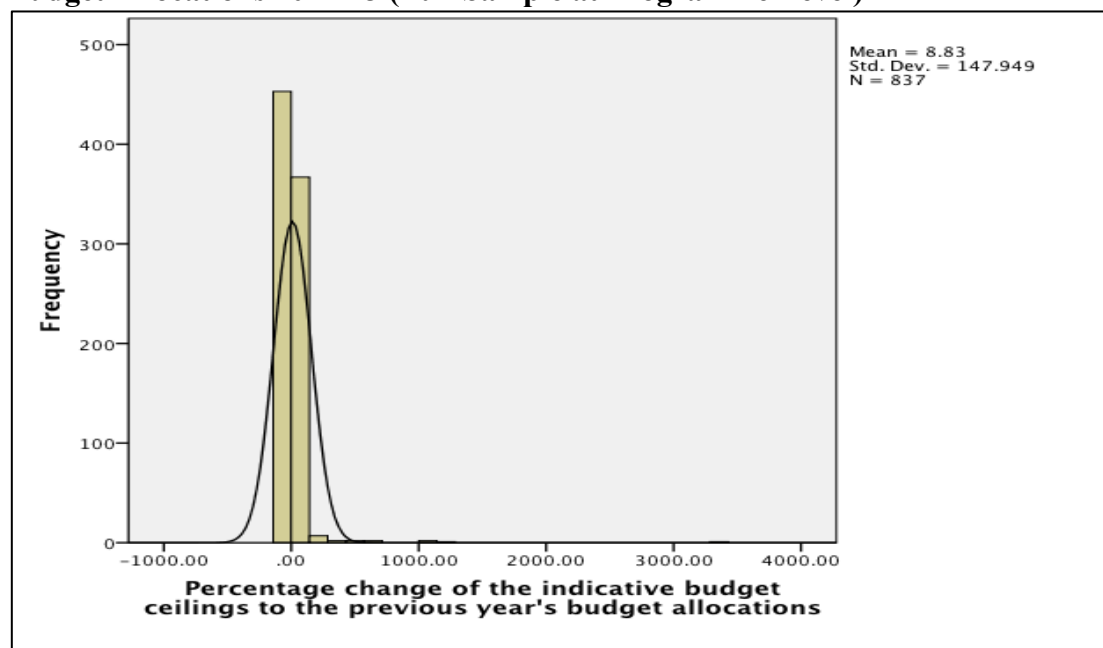
Consistent with our previous analysis at ministry/agency level, the dependent variable of this analysis is the percentage change in the indicative budget ceilings from the previous year's budget allocations. We examine the indicative budget ceilings from two budget years, 2013 and 2014. From the total of 837 programmes, the highest and the lowest budget changes are 3,419.82% and -100%, with an average change of 45%. The highest and the lowest budget changes in 2013 are 3,419.82% and -100%, with the average change of 26.24%. The highest and the lowest budget changes in 2014 are 1,023.96% and -100%, with an average of -8.30%. If we compare with the budget changes at ministry/level, the budget changes at programme level are more volatile.



Turning to the independent variable of RKAKL performance scores in 2011 and 2012, the highest and the lowest scores of the full sample of 837 programmes are 139.91 and zero, with an average score of 76.48. The highest and the lowest performance scores in 2011 are 106.18 and zero, with an average score of 74.83. The highest and the lowest scores in 2012 are 139.91 and 11.50, with an average of 76.84.

We can graph the histogram of the percentage change in the indicative budget ceilings 2013-14 at programme level from the full sample of 837 programmes, as shown in Figure 5.5.

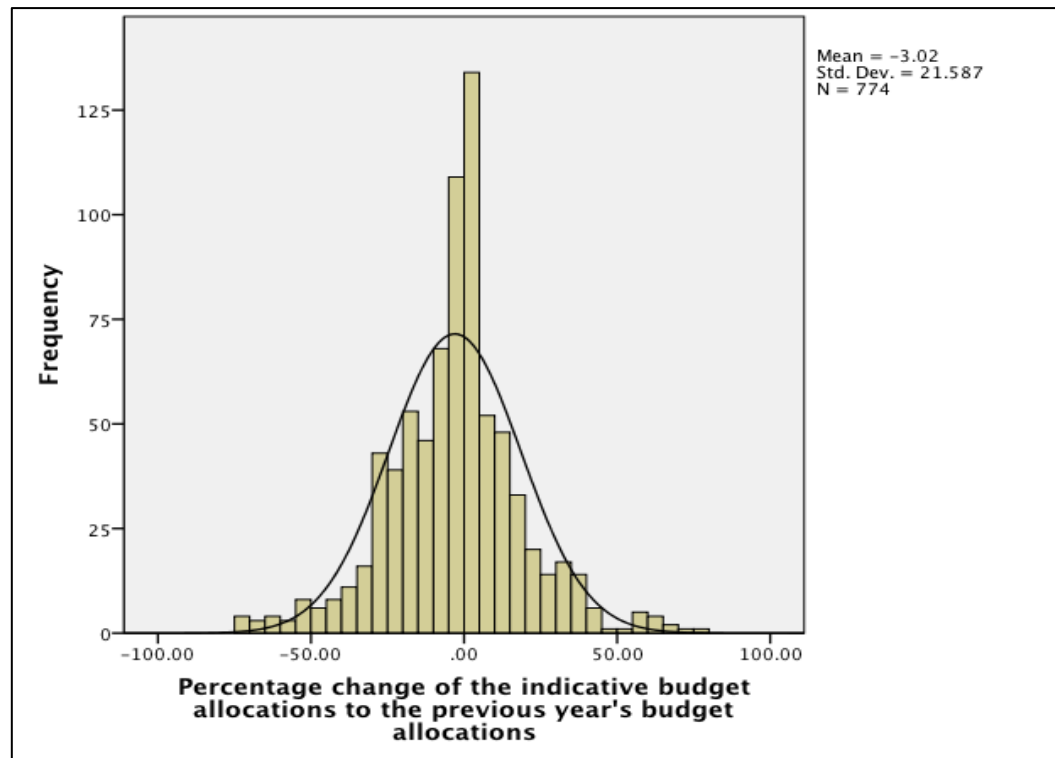
**Figure 5.5: Histogram of the Indicative Budget Ceilings Changes 2013-14 to the Budget Allocations 2012-13 (Full Sample at Programme Level)**



Looking at Figure 5.5, there are outlier observations so that the distribution looks skewed and abnormal. We then exclude all cases with budget changes greater than

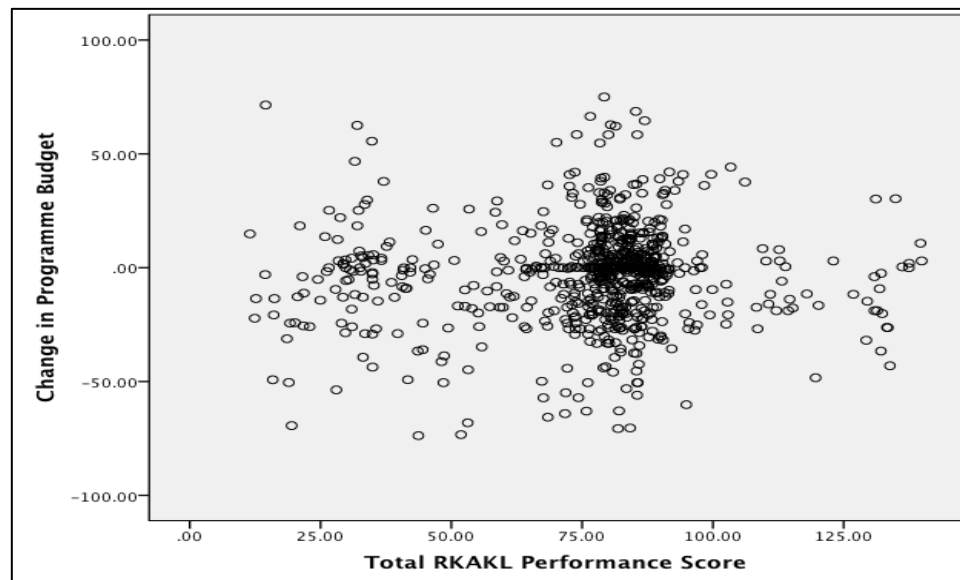
75%. The histogram of truncated sample can be seen in Figure 5.6. We excluded 63 cases in this histogram., leaving 774 cases in our sample.

**Figure 5.6: Histogram of the Indicative Budget Ceilings Changes 2013-14 to the Budget Allocations 2012-13 (Truncated at Programme Level)**



The distributions in histogram in Figure 5.5 look less skewed and more normal than the histogram with full sample in Figure 5.4. We continue our analysis by looking the correlation between the budget change and performance scores. We graph the bivariate relationship between total RKAKL performance score and percentage change of the indicative budget ceilings in 2013 and 2014, as can be seen in Figure 5.7.

**Figure 5.7: Impact of RKAKL performance scores 2011-12 on the indicative budget ceilings 2013-14 (at Programme level)**



As shown in the Figure 5.7, the relationship between total RKAKL performance scores and the indicative budget ceilings look scattered. The Pearson correlation coefficient (equal to the standardised regression coefficient) between the two variables is positive ( $r = 0.053$ ) and is not significant ( $p < 0.05$ ). In summary, this analysis indicates that at the programme level we are unable to reject the null hypothesis that RKAKL performance scores have no influence the indicative budget ceilings. This finding is consistent with our findings on the statistical analysis of budget changes at ministry/level. Again, as at the ministry/agency level before, what we have found is an absence of evidence that RAKL performance scores influence changes in budgets. Again this weak sense, this finding is consistent with our findings from the interviews with government officials from the Ministry of Planning, the Ministry of Finance, and line ministries/agencies.

The Impact of RKAKL Performance Scores on the Indicative Budget Ceilings 2013-2014 at Ministry/Agency Level using the Previous Year's Budget Spending as a Base

In the previous analysis, we used the percentage change in the indicative budget ceilings in a particular year to the budget allocations in the previous year as the dependent variable. In this section, we expand our analysis using the percentage change in the indicative budget ceilings in a particular year to the budget spending in the previous year as the dependent variable. In practice, the indicative budget ceilings 2013 were determined in the beginning of 2012. Hence, we hypothesise that government officials from the Ministry of Planning and the Ministry of Finance used the budget spending of 2011 as a consideration to determine the indicative budget ceilings of 2013. Similarly, we hypothesise that those budget authorities used the budget spending of 2012 as a consideration to determine the indicative budget ceilings of 2014. For this analysis, we use audited budget spending data of 2011 and 2012. We use performance scores data RKAKL performance scores 2011 and 2012 as the independent variable.

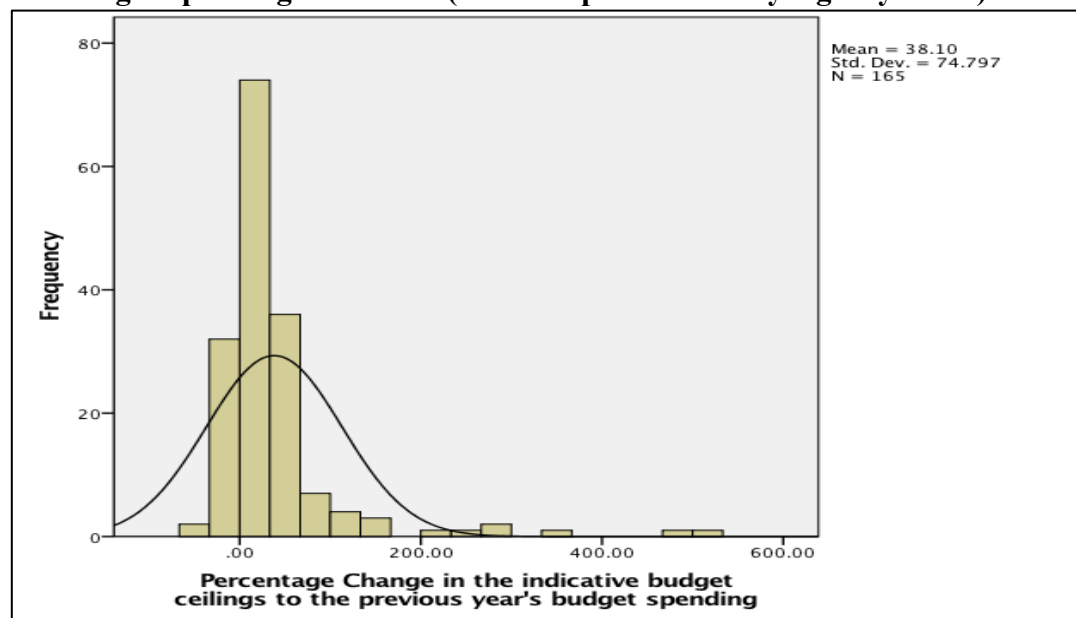
It is worth noting that in this particular analysis, we can only analyse the impact of RKAKL performance scores on the indicative budget ceilings 2013-2014 at ministry/agency level because we do not have budget spending data at programme level.

In total, we have 165 observations of the percentage change in the indicative budget ceilings to the previous year budget spending from two budget years, 79 observations from 2013 and 86 observations from 2014. The highest budget change from these

two years is 514.38% and the lowest is -52.08% with an average change of 38.10%. The highest budget change for the indicative budget ceilings 2013 is 477.44%, the lowest change is -52.08%, with an average change of 48.59%. In the indicative budget ceilings 2014, the highest budget change is 514.38%, the lowest is -50.41% with an average change of 28.46%.

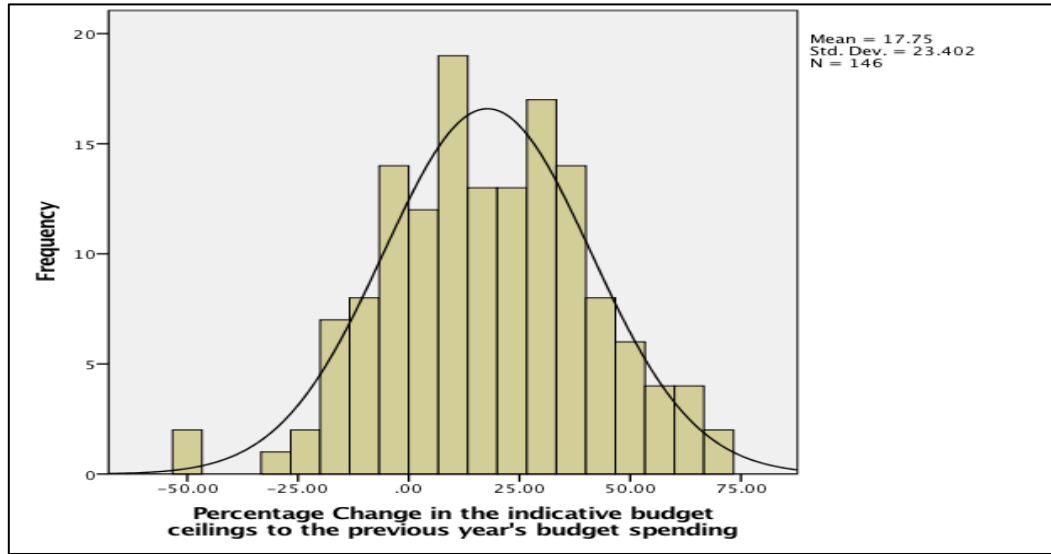
The histogram of the percentage change in the indicative budget ceilings 2013-2014 can be seen in Figure 5.8.

**Figure 5.8: Histogram of the Indicative Budget Ceilings Changes 2013-2014 to the Budget Spending 2011-2012 (Full Sample at Ministry/Agency Level)**



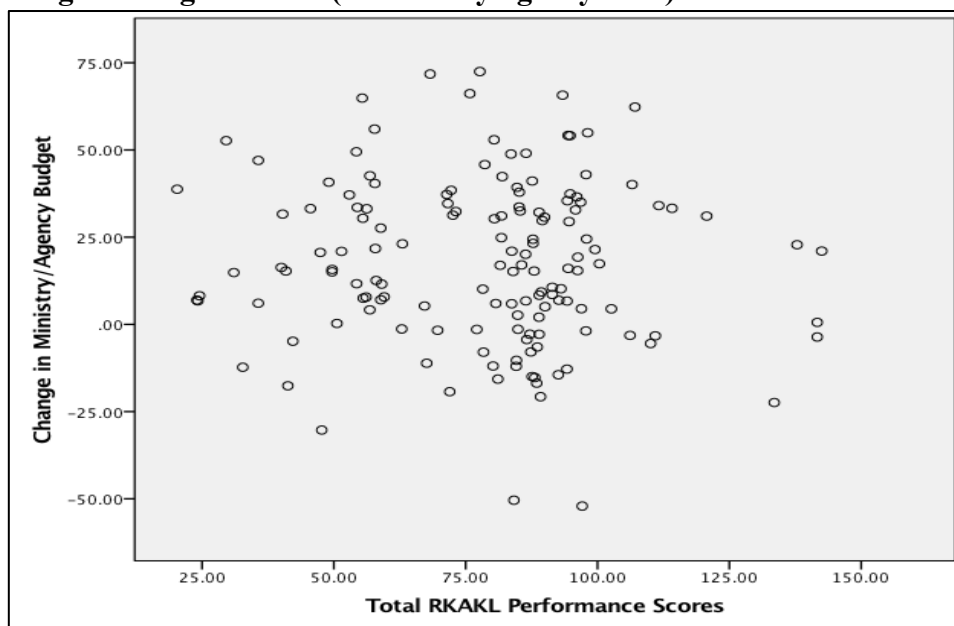
As shown in histogram in Figure 5.8, there are outlier observations so that the distribution looks skewed and abnormal. We then exclude all cases with budget changes greater than 75%. The histogram of truncated sample can be seen in Figure 5.9. We excluded 19 cases in this histogram hence leaving 146 observations in our sample..

**Figure 5.9: Histogram of the Indicative Budget Ceilings Changes 2013-2014 to the Budget Spending 2011-2012 (Truncated Sample at Ministry/Agency Level)**



Histogram in Figure 5.9 look less skewed and more normal than the histogram with full sample in Figure 5.8. We continue our analysis by looking the correlation between the budget changes and performance scores. We graph the bivariate relationship between total RKAKL performance score and percentage change of the indicative budget ceilings in 2013 and 2014, as can be seen in Figure 5.10.

**Figure 5.10: Impact of RKAKL performance scores 2011-12 on the indicative budget ceilings 2013-14 (at ministry/agency level)**



As shown in the Figure 5.10, the relationship between total RKAKL performance scores and the indicative budget ceilings look scattered. The Pearson correlation coefficient between the two variables is negative ( $r = -0.070$ ) and is not significant ( $p < 0.05$ ). In summary, this analysis indicates that we are again unable to reject the null hypothesis that RKAKL performance scores do not influence the indicative budget ceilings at ministry/agency level. In the weak sense described above, this finding is consistent with our previous analysis.

What can we say overall about the relation between performance scores and changes in budgets? We recall that our interview work led us to the conclusion that officials did not believe that performance scores had an influence on changes in budgets. In our statistical analysis we set out to test an alternative hypothesis that there was a statistical relation against a null of no effect. We were unable to reject the null of no effect. Our statistical analysis therefore provides no evidence to reject the evidence from our interviews. Overall, the results of statistical analysis and the interview work suggest that we have strong indications of a lack of relationship between total RKAKL performance scores and percentage changes of the indicative budget ceilings and that our statistical work was unable to reject a null hypothesis that RKAKL performance scores are not being used in determining budget allocations. There is therefore evidence consistent with the interview work that there is cause for worry that performance budgeting is not yet operating in practice in Indonesia.

## **5.6. Statistical Analysis of the Existence of Incremental Budgeting**

The interviews study has indicated that government officials in the Ministry of Planning and the Ministry of Finance still use past budget decisions, by looking at the

previous year's budget allocations, for determining budget allocations of line ministries/agencies. Although they also use many other factors for determining budget allocations, this finding suggests that incremental budgeting still operates in the performance-based budgeting environment.

We now use statistical analysis to examine the extent of existence of incremental budgeting. We use the budget data of 2011-2014 at ministry/agency level and at programme level. To examine a possible incremental pattern, we use the following approaches: (1) the magnitude of change; and (2) stability of allocations: incremental trend model.

Firstly, we analyse the magnitude of change in budget allocations over the period 2012 to 2014. Similarly to the analysis in the previous section, we analyse the change in the indicative budget ceilings as a percentage of the previous year's budget allocations. At the ministry/level, there are 247 observations over the period of 2012-2014. The highest percentage change is 532.14% and the lowest change is -89.20% with an average change of 2.92%. At programme level, there are 1210 observations from 2012-2014. The highest and the lowest percentage change of these observations are -98.99% and 3419.82% respectively, with an average percentage change of 11.62%.

Can we summarise these data to determine whether the budgeting process has been incremental? The question is, "how much does the budget need to change for the change to be considered non-incremental?" Bailey and O'Connor (1975) review the work of earlier authors (Wildavsky, 1964, Fenno, 1966, Sharkansky, 1968 and Dye, 1972) and find their definitions of what changes would be considered incremental to

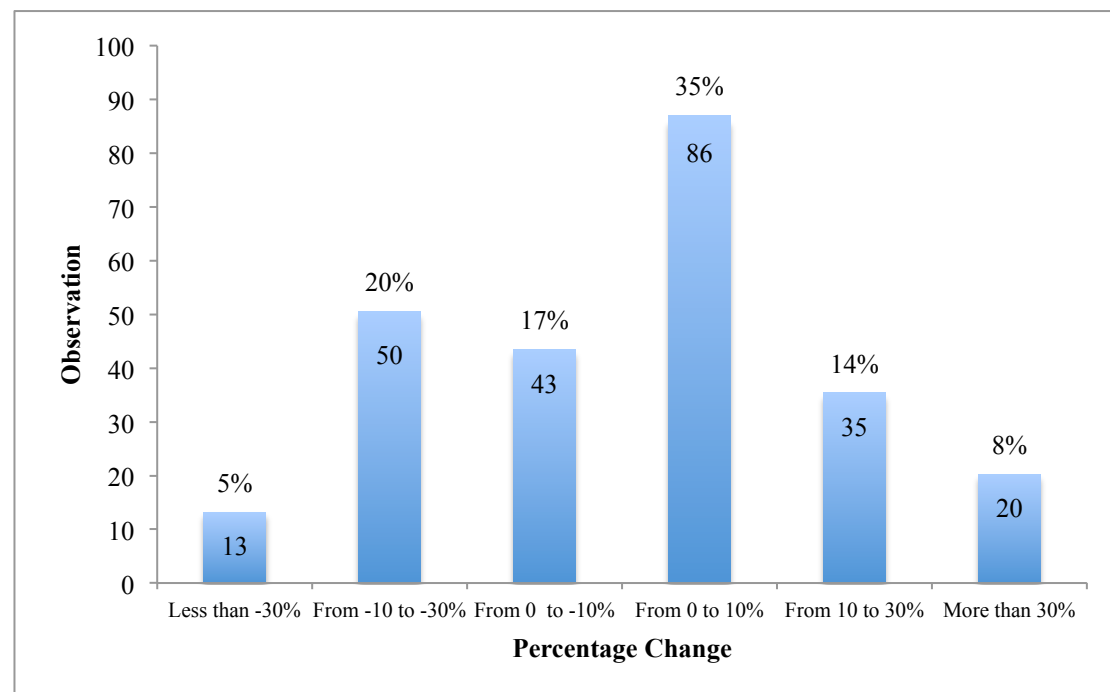


be overly broad. We follow Bailey and O'Connor in adopting the following classification criteria for defining incremental, intermediate, and non-incremental changes are:

- 0-10 per cent change in the budget year-on-year is defined as incremental;
- 11-30 per cent intermediate;
- +31 per cent non-incremental.

Since Bailey and O'Connor wrote, budgeting has needed to adjust to the greater possibility of decrements as well as increments (Schick, 1983) so we expand these categories in a negative direction to include decrements of the same size. On this basis we graph two charts of the number of budget changes to identify incremental budgeting at ministry/agency level as well as at programme level, as shown in Figure 5.11 and Figure 5.12.

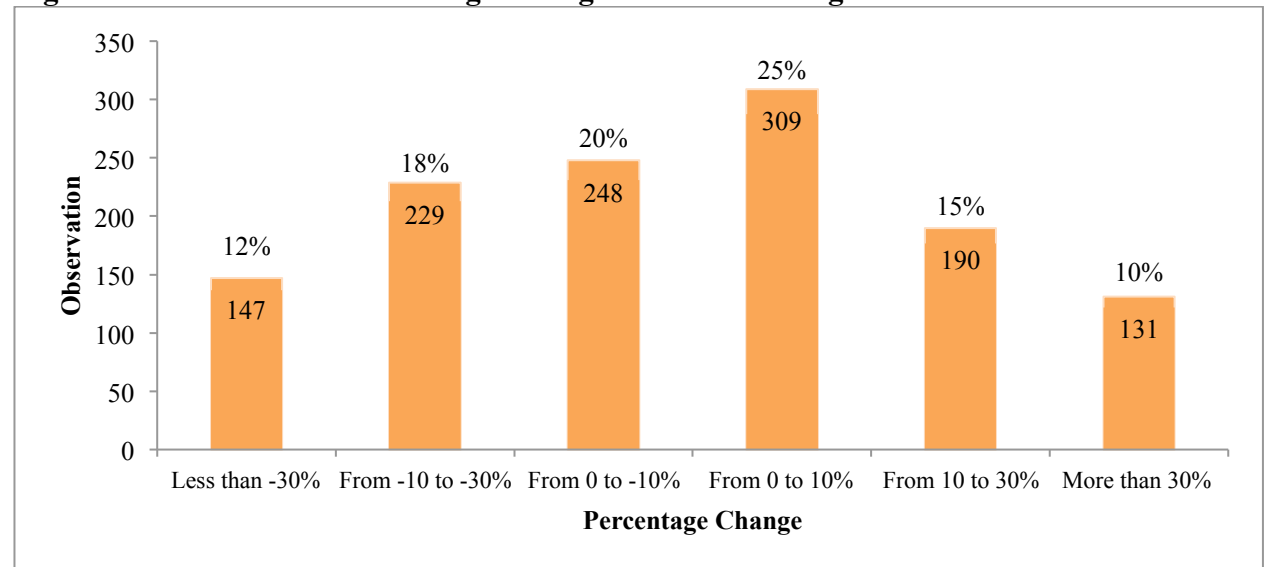
**Figure 5.11: Number of Percentage Changes 2012-14 at Ministry/Agency Level**



As can be seen in Figure 5.11, there are 129 observations, that is 52% of the observations, which fall within the -10 and 10% range of percentage change, while

34% of the observations (85 out of 247) fall within -11 to -30% and 11 to 30% ranges of change. The rest, 13% (33 out of 247) fall within less than -30 per cent and more than 30 per cent. Therefore, there is a moderate conclusion that much incremental budgeting occurs in budget allocations for line ministries/agencies in Indonesia.

**Figure 5.12: Number of Percentage Changes 2012-14 at Programme Level**



At the programme level in Figure 5.12, there are 46% observations (557 out of 1210) which fall within the -10 and 10% range of percentage change, while 35% of the observations fall within -11 to -30% and 11 to 30% ranges. The rest, 20% fall within less than -30 per cent and more than 30 per cent ranges. These results are slightly different to the results of ministry/level. The budget change at programme level is less incremental than the budget change at ministry/agency level. These findings are consistent with Anderson and Harbridge (2010) who find budgeting is less incremental at the sub-agency level and cite LeLoup's (1978, p. 498) argument that "gains and losses by competing programs cancel each other out in the totals".

Our examination of incremental budgeting continues using a stability model along the lines of that discussed above in Chapter 2 (Danziger, 1976, Ibrahim and Proctor, 1992). The stability model focuses on evaluating the pattern of budget allocations over time using a linear regression. To assess whether the budgetary process of each ministry/agency is incremental, this analysis can use the fit of the data to the regression line, the  $R^2$  value. A low  $R^2$  value indicates a low degree of stability of budget allocations. In contrast, a high  $R^2$  indicates a high level of allocations stability. An alternative but equivalent way of presenting the results, compatible with our statistical work on performance budgeting above is to present the standardised regression coefficient which is equal to the Pearson correlation coefficient  $r$  as an indication of the strength of an incremental relationship between budgets. Our null hypothesis is that the correlation is zero and the alternative hypothesis is that it is significantly greater than zero. Using this approach, we examine the stability of each budget allocation stage compared to the previous budget stage at ministry/agency level as well as at programme level over the three annual budget cycles from 2012-2014. The number of cases for ministry/agency level and programme level are 247 and 1309 cases respectively. The results of  $R^2$  and the Pearson correlation coefficient  $r$  can be seen in Table 5.7.

**Table 5.7: Coefficient Determination ( $R^2$ ) and Coefficient Correlation ( $r$ ) of All Budget Allocations Stages for the Period 2012-2014**

Case/Observation Level	The indicative budget ceilings		The budget ceilings		The budget allocations	
	$R^2$	$r$	$R^2$	$r$	$R^2$	$R$
Ministry/Agency Level	0.983	0.992	0.987	0.994	0.996	0.998
Programme Level	0.950	0.975	0.968	0.984	0.971	0.985

Looking at the  $r$  values in Table 5.7, we can see that the correlation  $r$  between successive years for both ministry/agency and programme level at every stage of allocations is extremely high. All these correlation coefficients ( $r$ ) between each budget allocation and the previous budget stage are positive and significant with the null of no effect rejected ( $p < 0.001$ ). Our results indicate the stability implicit in an incremental pattern. We can conclude that our budget data are “descriptively incremental” as defined by Berry (1986, p. 602). Going beyond that to infer an explanation of this pattern from our limited data is hazardous and might be subject to problems of spurious correlation (Yule, 1926).

To summarise, the results of analysis by the magnitude change in budget allocations and by the incremental trend model indicate that incremental practice of budgetary allocation decisions is still in place in Indonesia. These findings correspond with the results of interviews suggesting that the previous year’s budget allocations still strongly influence the budget decision of the following year or in our study the previous year’s allocation still affect the indicative budget ceiling decisions.

### **5.7 Underspending of Budget Allocations**

Looking at the budget allocations and spending data of line ministries/agencies over the period of 2011-2014, it was revealed that line ministries/agencies typically do not fully use all of their budget allocations. Table 5.9 shows that between 2011 and 2014, line ministries only spent their annual budget allocations between 89 to 96 per cent. It appears that this underspending pattern is not limited to this period only. For example, Blondal, Hawkesworth, and Choi (2009, p. 11) found that most recently line ministries/agencies only spent about 88% of budget allocations.

**Table 5.8: Total Budget Allocations and Spending of Line Ministries/Agencies 2011-2014**

Year	Budget Allocations (in Rupiah)	Budget Spending (in Rupiah)	Spending as a percentage of budget allocations
2011	461,508,010,946,000	418,873,569,684,628	91%
2012	548,317,746,116,000	490,066,765,386,899	89%
2013	622,008,671,596,997	583,337,768,376,763	94%
2014	602,291,956,299,000	577,164,824,476,978	96%

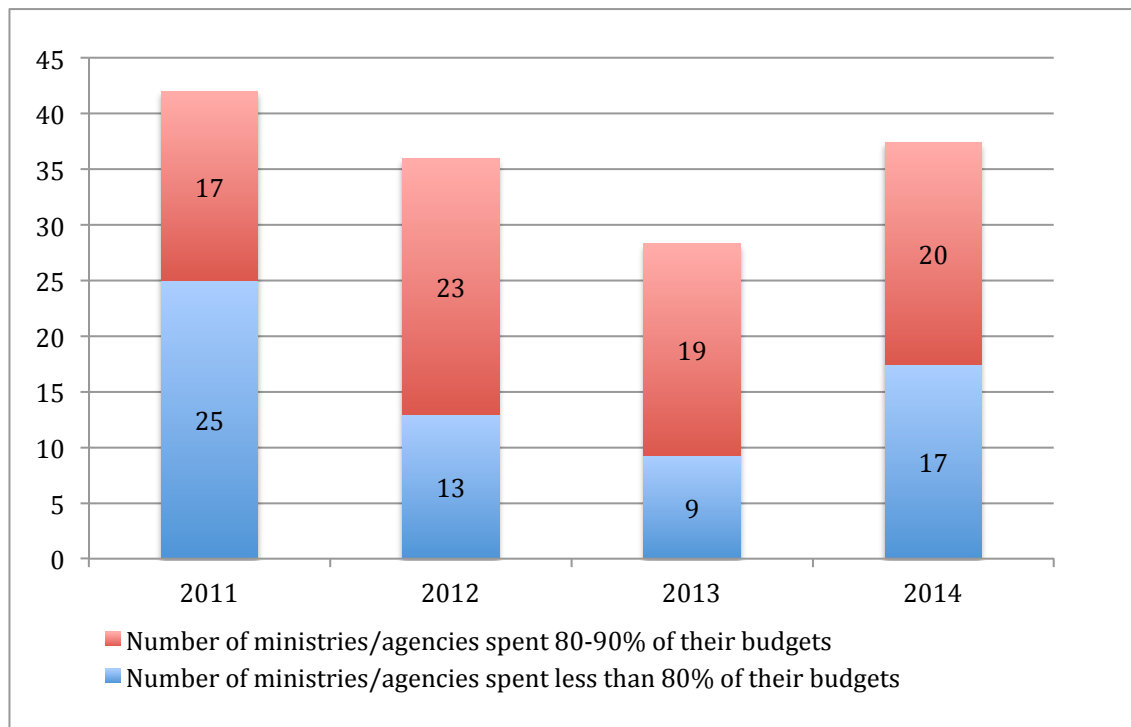
Note: Number of line ministries/agencies in 2011: 79, other years: 86

(Source: Author's compilation from the Audit Report of BPK 2011-2014)

We continue examining the number of ministries/agencies that spend less than 90% of their budgets over the period 2011-2014. The total number of line ministries/agencies in 2011 was 79 and the total number of line ministries/agencies in 2012, 2013, and 2014 were 86. Figure 5.13 shows the number of line ministries/agencies that spent less than 90% of their budget allocations over the period 2011-2014.

Looking at Figure 5.13, forty-two (54% of 79 ministries/agencies) ministries/agencies spent less than 90% of their budget allocations in 2011. In fact, twenty-five ministries/agencies (32%) only spent maximum 80% of their budgets during the year. In 2012, the number of ministries/agencies that spent less than 90% of their budget allocations was decreased. It was 36 out of 86 (42%) ministries/agencies. Thirteen (or 15%) ministries/agencies spent less than 80% of their budgets.

**Figure 5.13 Number of Line Ministries/Agencies that Spent Less Than 90% of Their Budgets in 2011-2014**



(Source: Author's compilation from the Audit Report of BPK 2011-2014)

The number of ministries/agencies that spent less than 90% of their budgets fell again in 2013. There were only 27 ministries/agencies (31%) that spent less than 90% of their budgets. However, the number of line ministries/agencies that spent less than 90% of their budgets increased in 2014. Thirty-five ministries/agencies (40% out of 86 ministries/agencies) spent less than 90% of their budget. Overall, Table 5.10 shows that the number of line ministries/agencies that spent less than 90% of their budgets is relatively large. There is a challenge for the government to encourage line ministries/agencies to execute their budgets as planned.

Blondal, Hawkesworth, and Choi (2009, p. 11) suggest the explanations of why budget underspending occurred in Indonesia. Firstly, the carry-forward facilities in Indonesia have only been used to a very limited extent. Most budget allocations

cannot be carried forward to the following year so that the budgets that cannot be disbursed at the end of fiscal year (31 December) are considered as unspent budgets. Secondly, there were rigidities in the process of procurement of goods and services that delayed the disbursements of funds during the year. In addition, ministries/agencies found difficulties in recruiting government officials who have the required competencies for conducting the procurement processes. Thirdly, the delays of procurement process were related to the cautious approach of government officials. Procurement has been identified as high risk for corruption and stiff punishment are applied for government officials convicted of corruption in procurement-related activities. Thus, many government officials were cautious and reluctant to be involved in procurement activities.

The Government undertook several initiatives to increase the budget spending, such as revising a regulation related to procurement process, conducting training for staff to improve their capacity to do procurement process and financial management, and performing more intensive monitoring and evaluation (Antara, 2013).

It appears that the problem of budget underspending was still in place in 2014. The problem may relate to the extent of incremental budgeting practice in Indonesia. Line ministries/agencies may always ask for more budgets and the central budget office (the Ministry of Planning and the Ministry of Finance) did not review the base so that the budget allocations given to ministries/agencies might be greater than their real needs.

## **5.8 Conclusion**

This chapter examined the extent of the use of performance information in determining budget allocations. The interviews with government officials/practitioners from the Ministry of Planning, the Ministry of Finance, and line ministries/agencies indicated that performance information, in the form of both performance targets and RKAKL performance scores, was not considered as important as other factors in determining budget allocation decisions. In fact, RKAKL performance score was not included in the five most important factors affecting budget decisions. The interviews also indicated that the previous year(s) budget allocations still play an important role in determining budget allocations of line ministries/agencies. It can be concluded from the interviews that incremental budgeting practice still has a strong role in the budgeting environment in Indonesia. Performance-based budgeting is strongly put in place by the government regulations, but as yet, it has not achieved a strong influence in the actual practices of budgeting in Indonesia.

This chapter has also discussed the importance of the indicative budget ceilings stage in the budgetary decision stages. Although adjustments of the indicative budget ceilings may occur in the next budget stages. The interviews suggested that any changes from the indicative budget ceilings to the budget ceilings and the budget allocations are marginal. Therefore, in the statistical analysis of the influence of performance scores on budget allocations and the existence of incremental budgeting, this study places the most attention on the indicative budget ceilings decision.



The results of statistical analysis of the relationship between total RKAKL performance scores and percentage changes of the indicative budget ceilings indicate that we cannot reject a null hypothesis that RKKAL performance scores are not, in practice, being used in determining budget allocations. Although rejection of the null is not a strong statistical finding, these results are consistent with our findings from the interviews with government officials from the Ministry of Planning, the Ministry of Finance, and line ministries/agencies.

The statistical analysis of testing the existence of incremental budgeting has indicated that incremental practice of budgetary allocation decisions is still in place in Indonesia. Here a null hypothesis of no effect is strongly rejected. The bivariate statistical analysis carried out is possibly over simple and subject to possible omitted variable bias, but these findings correspond with the results of interviews suggesting that the previous year's budget decisions still affect next year's budget decisions and that incremental budgeting practices are still in place.

Overall we may conclude that we have found that there is strong evidence that regulations are in place to require performance-based budgeting in Indonesia. However, our interview and statistical research has demonstrated that these official requirements to take performance into account are not, as yet, being translated into the actual substance of budgeting in Indonesia.

In the next chapter the extent of use of performance information in the planning and budgeting process and in the broader management purposes will be discussed.

## **Chapter 6 – The Extent of the Use of Performance**

### **Information by Government Practitioners**

#### **6.1 Introduction**

This chapter focuses on reporting the findings related to Research Question Number Three ‘How, in practice, do government practitioners use performance information in the Indonesian planning and budgeting process?’ The extent of the use of performance information is a key issue that arises from the experience of performance budgeting in other countries. Therefore, this research asked budget officials about their use of performance information in various stages of the planning and budgeting process. The findings are gathered from the interviews and the questionnaire responses from budget officials and government practitioners. The interviews were conducted with officials from the Ministry of Planning, the Directorate General of Budget (DG Budget) within the Ministry of Finance, Members of Parliament, and line ministries/agencies. The questionnaire was distributed to officials from the remaining line ministries/agencies that were not included in the interviews.

The chapter is divided into three sections - each section presenting findings on the use of performance information from four different government institutions involved in the planning and budgeting process. The first section presents findings on how government practitioners from the Ministry of Planning and the Directorate General of Budget within the Ministry of Finance use performance information in the planning and budgeting process. The second section presents findings on the use of performance information by Members of Parliament. The third section reports

findings on how government practitioners from line ministries/agencies use performance information in the planning and budgeting process and for other managerial purposes such as for accountability, mobilisation, and improvement. Although each section focuses on reporting the use of performance information by each institution, the views of practitioners from other institutions, where also gathered, are similarly presented and compared. For example, in section one, when the findings are presented on how government practitioners from the Ministry of Planning use performance information, opinions of practitioners from other institutions, in this case the officials from the Directorate General of Budget and line ministries/agencies, are also presented and compared.

## **6.2 How Government Practitioners from the Ministry of Planning and the Directorate General of Budget within the Ministry of Finance Use Performance Information**

The first part of this section reports the findings from the questionnaire regarding the views of government practitioners from line ministries/agencies on how government practitioners in the Ministry of Planning and the Directorate General of Budget use performance information. The questionnaire focused on the use of performance information for the entire planning and budgeting process rather than on how officials use performance information in each activity in the planning and budgeting process.

The second part reports the interviewee's views from the Ministry of Planning and the Directorate of General of Budget, as well as opinions from government practitioners from line ministries. This part focuses particularly on promises in the planning and

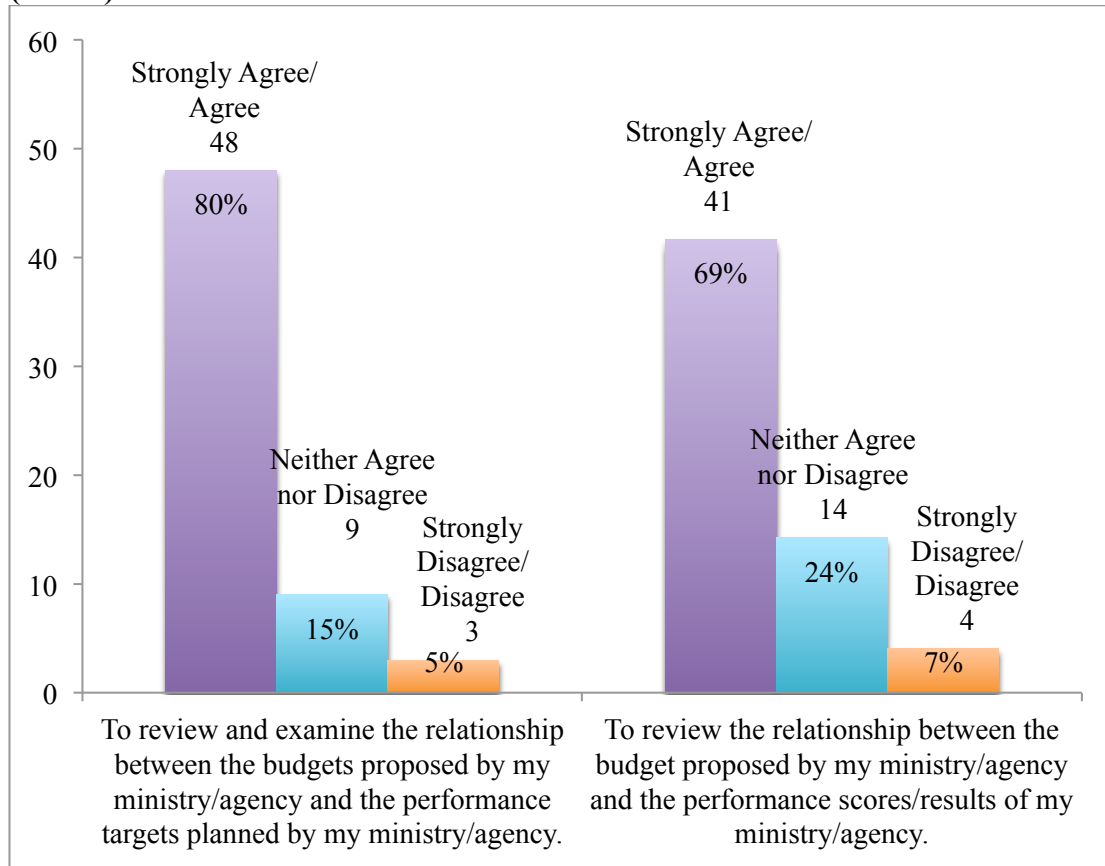
budgeting process, that officials would use performance information in preparing in trilateral meetings, in RKAKL review meetings, and in monitoring and evaluation.

### **6.2.1 The Views of Government Practitioners From Line Ministries/Agencies**

The views of questionnaire respondents from line ministries/agencies regarding the use of performance information by officials in the Ministry of Planning are reported in Figures 6.1 to 6.3. The respondents were asked to give their views on five different categories of the use of performance information by the Ministry of Planning.

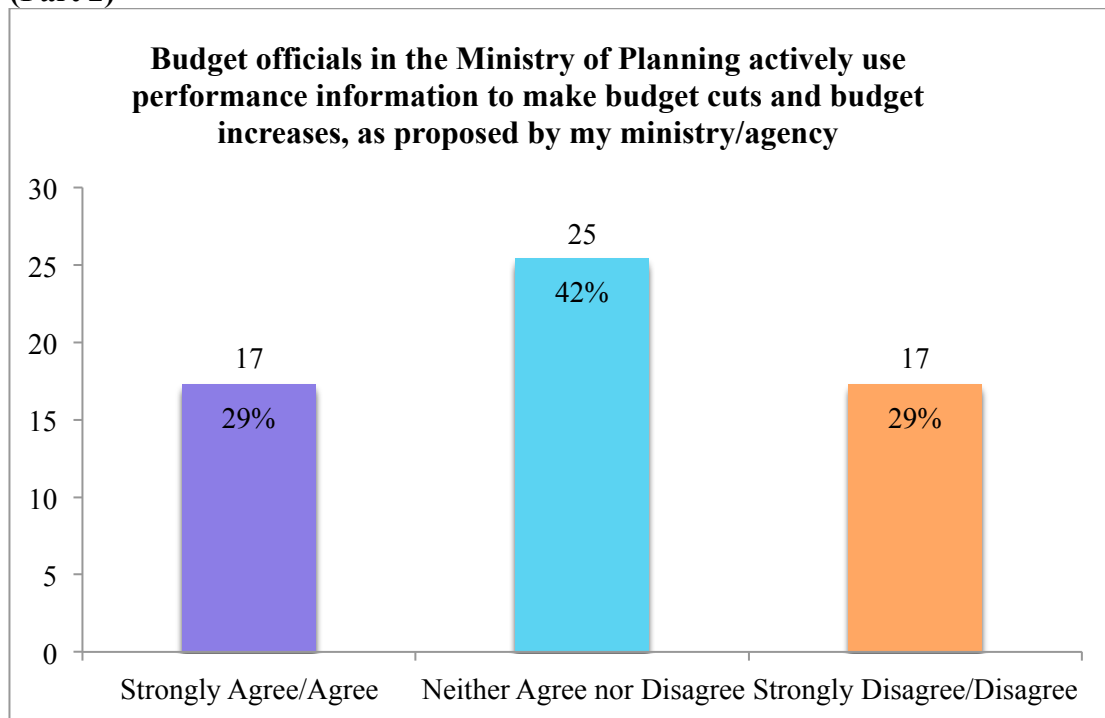
Out of 60 respondents, 80% (n = 48) of the respondents strongly agreed/agreed that the officials from the Ministry of Planning actively used performance targets in examining and reviewing the budgets proposed by ministries/agencies. Only 5% (n = 3) of the respondents strongly disagreed/disagreed with this statement. When asked whether officials from the Ministry of Planning actively used performance scores/results to review the budgets proposed by ministries/agencies, 69% (n = 41) of the respondents strongly agreed/agreed with the statement. Only 7% (n = 4) of the respondents strongly disagreed/disagreed with it (See Figure 6.1). Therefore, a large majority of respondents thought that officials from the Ministry of Planning actively used both performance targets and performance scores when reviewing budget proposals.

**Figure 6.1: The Use of Performance Information by the Ministry of Planning (Part 1)**



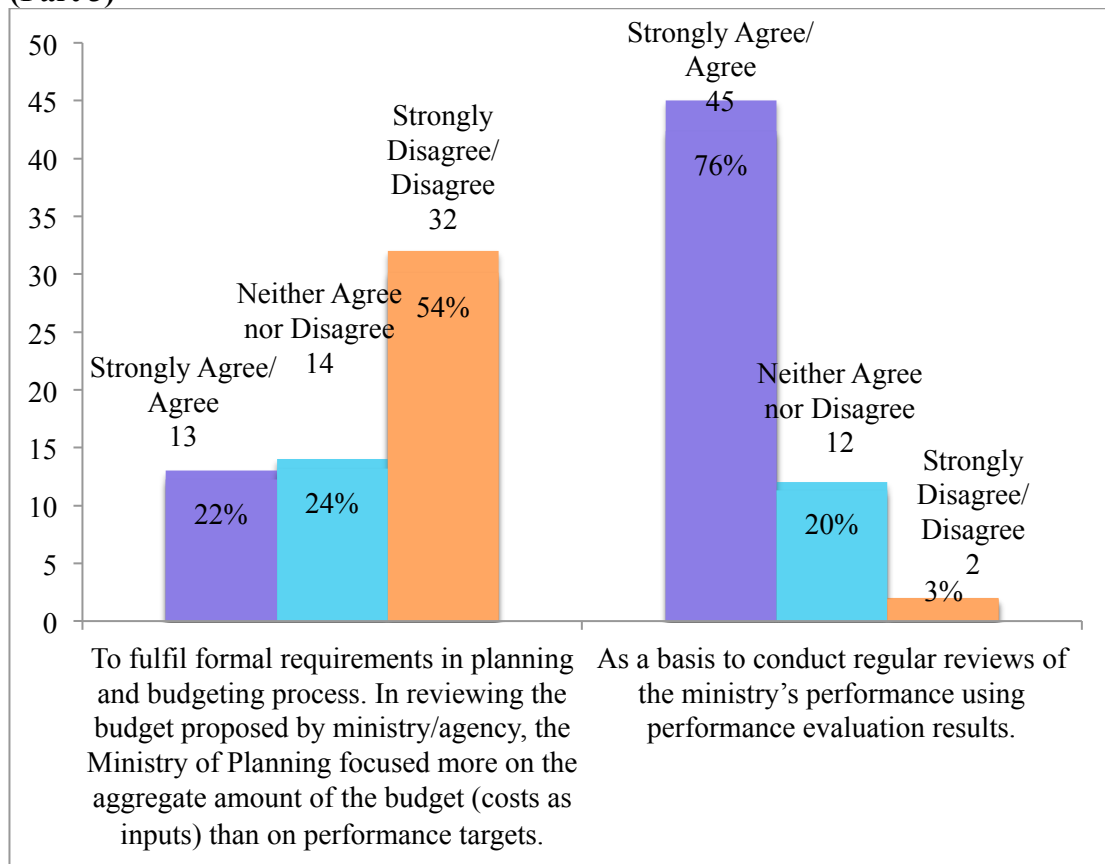
The answers of the respondents were rather different when they were asked to give their views on the statement, ‘Budget officials in the Ministry of Planning actively use performance information to make budget cuts and budget increases, as proposed by my ministry/agency.’ Out of 59 respondents, the number of respondents who strongly agreed/agreed and the number of respondents who strongly disagreed/disagreed with that statement were identical ( $n = 17$  or 29% each). There were 25 (42%) respondents who neither agreed nor disagreed with it (See Figure 6.2). It can be inferred that the respondents were not certain that officials in the Ministry of Planning actively used performance information in making budget cuts or budget additions.

**Figure 6.2: The Use of Performance Information by the Ministry of Planning (Part 2)**



Turning to the results in Figure 6.3, a small majority of respondents (54% or  $n = 32$ ) strongly disagreed/disagreed that officials in the Ministry of Planning used performance information in order to fulfil formal requirements and focused more on the aggregate amount of the budget other than performance targets in reviewing budget proposals. However, one fifth of respondents (22% or  $n = 13$ ) strongly agreed/agreed and a quarter of respondents (24% or  $n = 14$ ) neither agreed nor disagreed with this statement. Thus, the views of respondents were rather varied. To some extent, quite a large number of respondents from line ministries/agencies thought that budget officials in the Ministry of Planning focused more on reviewing the aggregate amount of the budget proposals rather than on performance targets. Other respondents considered that officials in the Ministry of Planning were not only interested in the budget amount, but also in the performance targets proposed by line ministries/agencies.

**Figure 6.3: The Use of Performance Information by the Ministry of Planning (Part 3)**



The respondents were quite positive when replying to the statement ‘Budget officials in the Ministry of Planning actively use performance information as a basis to conduct regular reviews of the ministry’s performance using performance evaluation results’ (See Figure 6.3). Three quarters of respondents (76% or  $n = 45$ ) strongly agreed/agreed with this statement. Only a small number of respondents (3% or  $n = 2$ ) strongly disagreed/disagreed. One fifth of respondents (20% or  $n = 12$ ) neither agreed nor disagreed. It can be deduced that the majority of respondents believed that performance results were used regularly by officials in the Ministry of Planning for reviewing the performance of line ministries/agencies.

From the open question of the questionnaire, four respondents gave their views on how government practitioners from the Ministry of Planning used performance information. The results were varied. Three respondents commented on a limited use of performance information in the planning and budgeting process. One of them noted that performance information had not been fully used as a basis for determining the budget. Another respondent identified “limited fiscal capacity” as the reason why the Ministry of Planning had not fully implemented performance-based budgeting. Another respondent noted that officials in the Ministry of Planning did to some extent use performance information in the planning and budgeting process. Performance information was used as a basis for evaluating the achievement of a line ministry. The officials in the Ministry of Planning have a tendency to use future performance information or performance targets as stated in the annual government work plan (RKP) and the directives of the President.

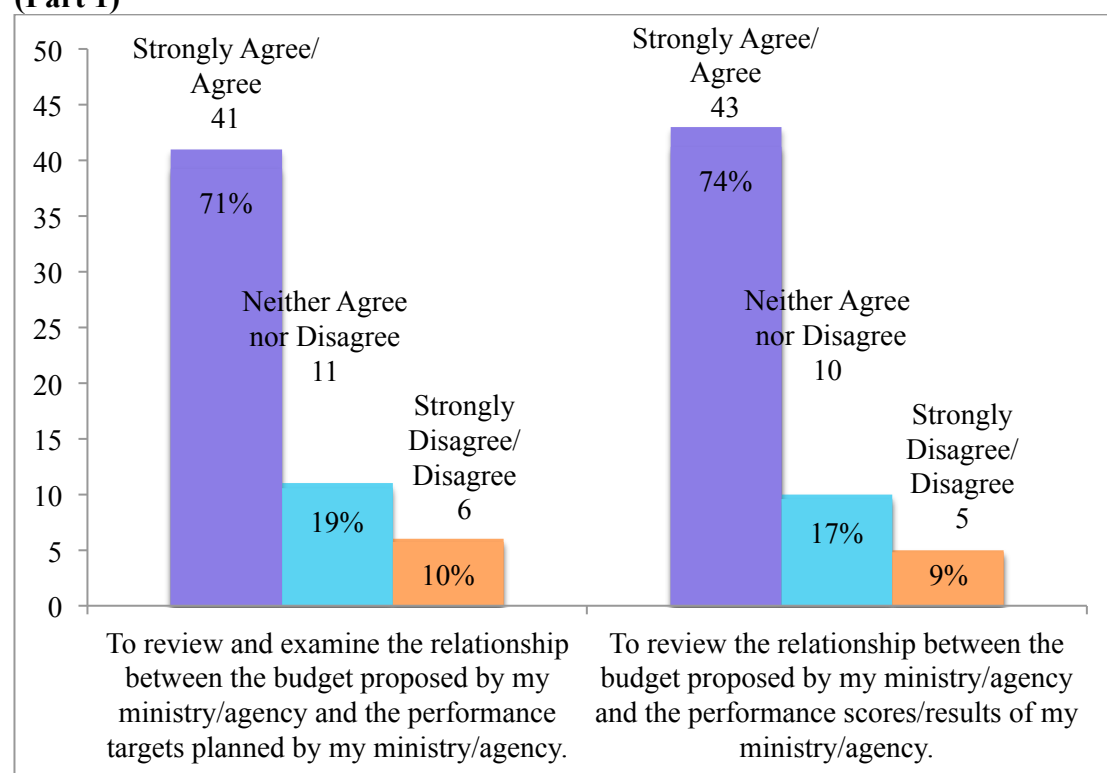
With regards to the views of respondents regarding the use of performance information by budget officials in the Directorate General of Budget within the Ministry of Finance, Figures 6.4 to 6.6 report the results of the section of the questionnaire that asked respondents from line ministries/agencies to give their views on the use of performance information by officials from the Directorate General of Budget within the Ministry of Finance.

A large number of respondents considered that budget officials in the Ministry of Finance used performance targets in reviewing and examining budget proposals. Almost a quarter of respondents (71% or  $n = 41$ ) strongly agreed/agreed with the statement ‘Budget officials in the Ministry of Finance actively use performance



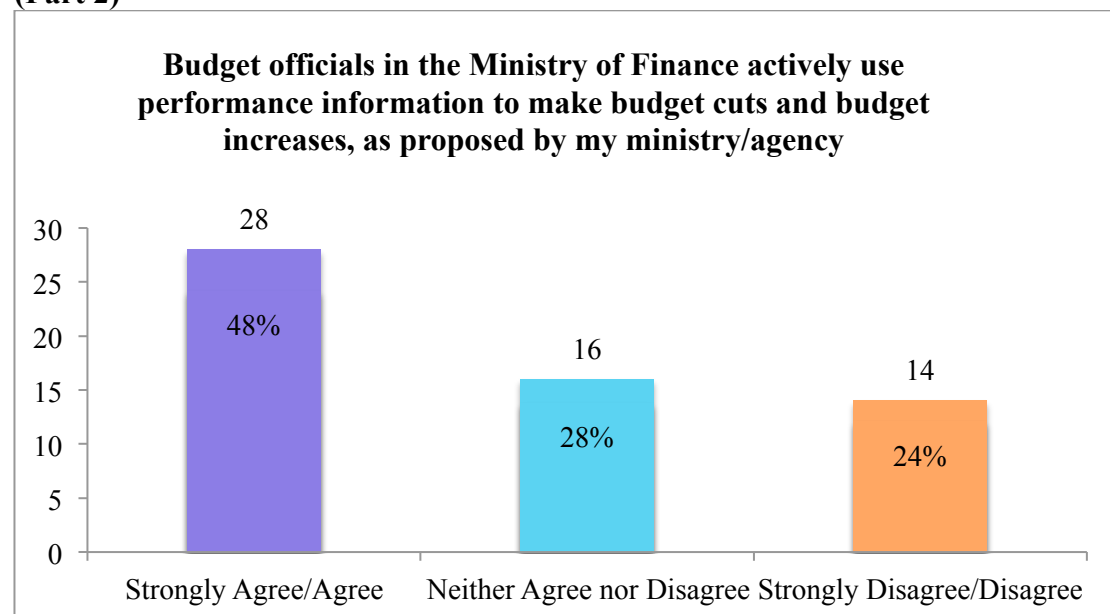
information to review and examine the relationship between the budget proposed by my ministry/agency and the performance targets planned by my ministry/agency’. Only 10% of respondents (n = 6) strongly disagreed/disagreed with this statement. Approximately a fifth of respondents (n = 11) neither agreed nor disagreed (See Figure 6.4). The majority of budget officials from line ministries and agencies (74% or n = 43) also strongly agreed/agreed that budget officials in the Ministry of Finance actively used performance scores/results in reviewing the budget proposals of line ministries/agencies. Only five respondents (9%) strongly disagreed/disagreed and the remaining 10 respondents (17%) neither agreed nor disagreed. Thus, a large number of respondents believed that officials in the Directorate General of Budget actively used both performance targets and performance scores in reviewing budget proposals. The results were rather similar to the results for budget officials in the Ministry of Planning.

**Figure 6.4: The Use of Performance Information by the Ministry of Finance (Part 1)**



In relation to the statement, ‘Budget officials in the Ministry of Finance actively use performance information to make budget cuts and budget increases, as proposed by my ministry/agency’, just under half of the respondents (48% or  $n = 28$ ) strongly agreed/agreed that budget officials from the Directorate General of Budget actively used performance information in making decisions about budget cuts or budget additions of budget proposals from line ministries/agencies. On the other hand, a quarter of the respondents (24% or  $n = 14$ ) strongly disagreed/disagreed with it, the remaining 28% of respondents ( $n = 16$ ) neither agreeing nor disagreeing (See Figure 6.5). It can be concluded that the use of performance information for making budget cuts or budget additions by the Directorate General of Budget was not extensive.

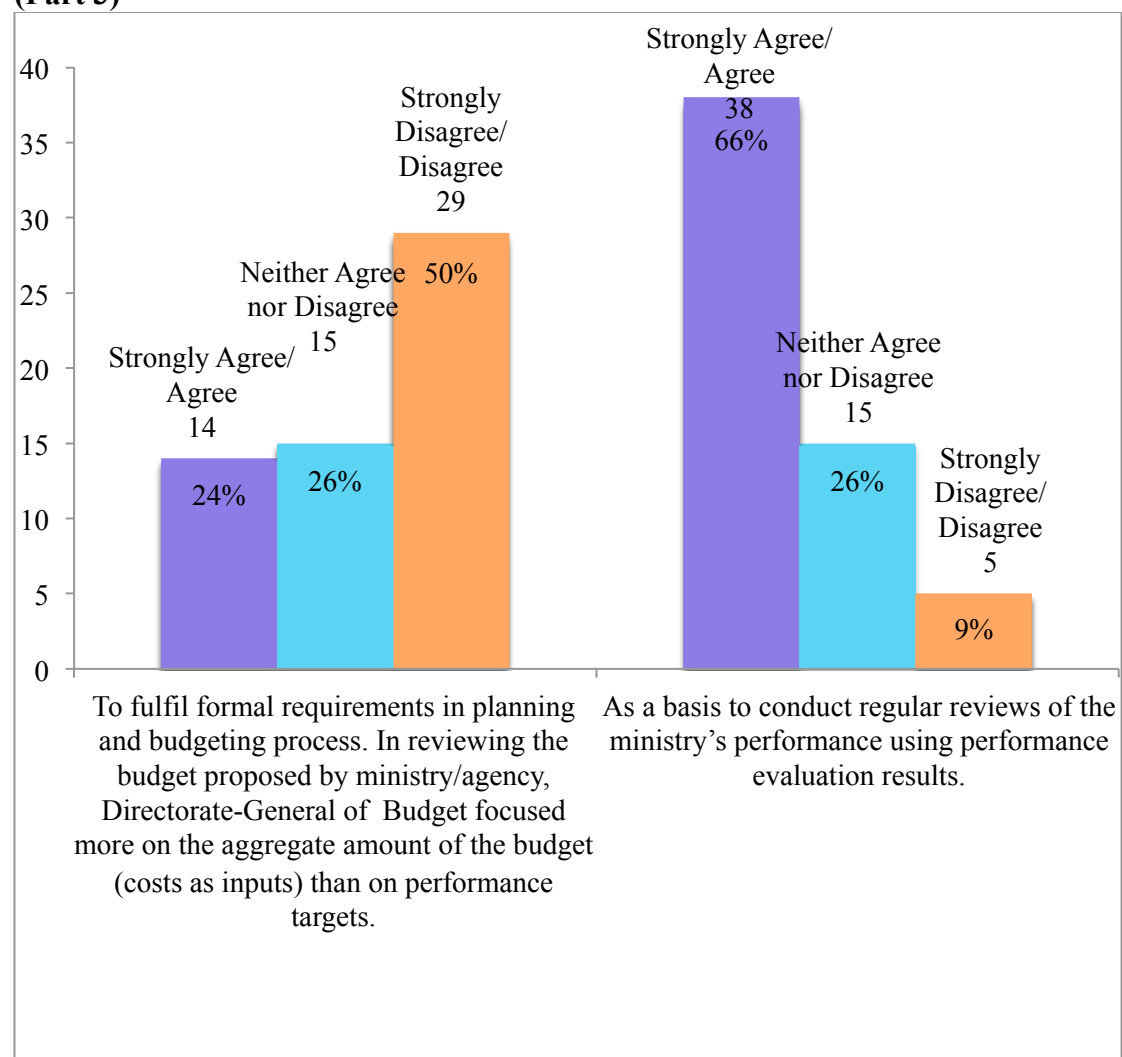
**Figure 6.5: The Use of Performance Information by the Ministry of Finance (Part 2)**



The results of the questionnaire shown in Figure 6.6 also revealed that half of the respondents ( $n = 29$ ) strongly disagreed/disagreed with the statement that in reviewing budget proposals, the Directorate General of Budget placed more focus on the aggregate amount of the budget rather than on performance targets. However, a

quarter of respondents (n = 14) strongly agreed/agreed that budget officials in the Directorate General of Budget used performance information to fulfil formal requirements. The remaining quarter of respondents (n = 15) neither agreed nor disagreed. So it is revealed that to some extent budget officials used performance information to fulfil formal requirements and they focused more on the aggregate amount of budget, than on performance targets.

**Figure 6.6: The Use of Performance Information by the Ministry of Finance (Part 3)**



Similar to the government officials in the Ministry of Planning, a large number of officials from line ministries/agencies (65% or n = 38) strongly agreed/agreed with

the statement ‘Budget officials in the Ministry of Finance actively use performance information as a basis to conduct regular reviews of the ministry’s performance using performance evaluation results.’ Fewer than one tenth of respondents (n = 5) strongly disagreed/disagreed with it and a quarter of respondents (n = 15) neither agreed nor disagreed (See Figure 6.6). Therefore, a large majority of respondents thought that officials from the Directorate General of Budget used performance evaluation results as a basis for reviewing the performance of ministries/agencies.

In summary, considering all the results from the questionnaire, it can be perceived that practitioners from both the Ministry of Planning and the Directorate General of Budget within the Ministry of Finance had initiated the use of performance information in the planning and budgeting process. According to the respondents, officials from both institutions regularly used performance information to review budget proposals. However, the use of performance information did not necessarily affect budget allocations (budget cuts and or budget additions).

The following sections report findings on the use of performance information by government practitioners in three annual budget preparation activities: in trilateral meetings, in RKAKL review meetings, and in monitoring and evaluation.

### **6.2.2 The Use of Performance Information in Trilateral Meetings by Government Practitioners**

Trilateral meetings are the annual meetings between government practitioners from the three institutions (the Ministry of Planning, the Directorate General of Budget in the Ministry of Finance, and the line ministries/agencies) that are responsible for the

planning and budgeting process. The meetings are held after the Minister of Planning and the Minister of Finance have issued the circular letter regarding the indicative budget ceilings of line ministries/agencies. The meetings are hosted by the Ministry of Planning and are held separately for every line ministry/agency. The Government practitioners from the three institutions who attend the meetings are officials from every sector directorate within the Ministry of Planning, officials from each directorate in the Directorate General of Budget, and officials from the planning and/or finance bureau of each line ministry/agency. This section presents findings regarding performance information used by government practitioners from the Ministry of Planning and the Directorate General of Budget in the meetings.

#### The Use of Performance Information in Trilateral Meetings by Government Practitioners in the Ministry of Planning

The interviews highlighted the range of performance information used by government officials from the Ministry of Planning in the trilateral meetings. Most interviewees commented that they used performance information in the meetings.

One practitioner from the Directorate of Forestry in the Ministry of Planning described how the meetings worked. He said that they intensively discussed programmes and activities that will be executed by the line ministries. However, it was emphasised that the cost structures of programmes or other such activities were not normally discussed. The focus was rather on actions. Another practitioner from the Directorate of State Apparatus commented that the role of the Ministry of Planning in the meeting was to ensure that line ministries/agencies had included the

national priorities and the priority activities in their annual work plan document (RENJA-KL).

Another practitioner from the Directorate of Water and Irrigation in the Ministry of Planning argued that during the meetings he reviewed the performance targets of a line ministry/agency in the activity level. He also reviewed multi-year activities to be budgeted and new initiatives to be implemented in the particular budget year. One practitioner from the Directorate of Transportation also noted that he relied on the presentation from line ministries in the meetings.

In the meetings, we relied on the presentation from the line ministry. We saw its evaluation of its own performance. We saw performance targets in RPJMN [the National Medium Term Development Plan], the accumulation of past achievements up to the most current budget year, and the remaining targets that must be achieved by the line ministry. We evaluated its performances as simply as that. (Head of Sub Directorate at the Directorate of Transportation, the Ministry of Planning, Interview 20).

When asked whether government practitioners used performance information based on the Minister of Finance Regulation number 249/2011, it was interesting to hear from one official who indicated that he did not use the performance evaluation reports. He commented: “I don’t see the trilateral meeting is regulated by the Minister of Finance Regulation 249/2011. It is regulated by our ministry (the Ministry of Planning)” (Head of Sub Directorate at the Directorate of Water and Irrigation, the Ministry of Planning, Interview 46).

#### The Use of Performance Information in Trilateral Meetings by Government Practitioners in the Directorate General of Budget

The interviews revealed that government practitioners from the Directorate General of Budget did not use performance information in the trilateral meetings. Their focus, it was suggested, was wholly on ensuring that the budget amount proposed by line

ministries/agencies followed the budget amount stated in the circular letter concerning the indicative budget ceilings.

An official from the Directorate of State Apparatus within the Ministry of Planning noted that practitioners from the Directorate General of Budget were focused more on ensuring that line ministries had allocated operational budgets such as personnel expenditures and other office expenditures.

They [government practitioners from the Directorate General of Budget] weren't concerned with the substantive dimension of performance information, they were more concerned with ensuring the fulfilment of the operational budget, such as personnel expenditures and other office expenditures by line ministries/agencies. (Head of Sub Directorate at the Directorate of State Apparatus, the Ministry of Planning, Interview 19)

One government practitioner from the Government Procurement Policy Agency (LKPP) commented that in the trilateral meetings, the Directorate General of Budget was responsible for ensuring that the proposed-budget of a line ministry conformed to the indicative budget ceilings that had been decided by the Minister of Planning and the Minister of Finance. Another practitioner from the Directorate of Water and Irrigation within the Ministry of Planning also emphasised that in the trilateral meetings government practitioners from the Directorate General of Budget were more focused on the specific type of budget than in reviewing performance targets proposed by line ministries/agencies.

In the trilateral meeting, I didn't see substantial roles of our partners from the Directorate General of Budget. They were concerned to review the availability of the specific type of budget. They didn't review how a line ministry/agency tried to achieve its performance indicators [targets]. (Head of Sub Directorate at the Directorate of Water and Irrigation, the Ministry of Planning, Interview 46)

The perspectives of government practitioners from line ministries/agencies and the Ministry of Planning were confirmed by an official from the Directorate General of

Budget. He noted that performance information would be discussed in RKAKLs' review meetings rather than in the trilateral meetings.

We didn't use performance information in the trilateral meetings. We only talked about the indicative budget ceilings. We only talked about the budget amount. Performance information would be discussed during RKAKLs' review meetings. (Head of Section at the Directorate of Budget II, the Directorate General of Budget, Interview 32).

In summary, these results show that to some extent government officials from the Ministry of Planning used performance information in trilateral meetings. They were responsible to ensure that the performance targets regarded as national priorities had been included in the annual work plan of line ministries/agencies (RENJA). In contrast, the role of government officials from the Directorate General of Budget in the meetings was to ensure that the budget amount proposed by line ministries/agencies followed the budget amount stated in the circular letter concerning the indicative budget ceilings. Government officials from the Directorate General of Budget were more focused on the specific type of budget, such as personnel expenditures and other operational expenditures, than reviewing performance targets proposed by line ministries/agencies.

### **6.2.3 The Use of Performance Information in RKAKL Review Meetings**

The Directorate General of Budget has the responsibility to arrange the RKAKL review meetings. Each year, the RKAKL review meetings are held twice, one after the issuance of the budget ceilings and the other after the issuance of the budget allocations. Similar to the trilateral meetings, these meetings are also attended by government practitioners from three institutions, the Directorate General of Budget, the Ministry of Planning, and line ministries/agencies. This section reports findings



about the use of performance information by government practitioners from the Ministry of Planning and the Directorate General of Budget.

#### The Use of Performance Information by Government Practitioners from the Ministry of Planning in RKAKL Review Meetings

One practitioner from the Directorate of Budget II within the Directorate General of Budget noted that government practitioners from the Ministry of Planning came to the RKAKL Review meetings but they did not know what they had to do in the meetings.

I didn't see the Ministry of Planning having a role during the RKAKL reviews. They just came but they didn't know their roles. In my opinion, they should check national priority activities on the RKAKLs. But in practice, they relied on us. (Head of Section at the Directorate of Budget II, the Directorate General of Budget, Interview 32).

Meanwhile, a practitioner from the Directorate of State Apparatus within the Ministry of Planning acknowledged that the involvement of officials from the Ministry of Planning in the meetings was not intensive. He commented that since 2013 the Ministry of Finance was more concerned with the involvement of the Ministry of Planning in the RKAKL Review meetings.

Only the last year the Ministry of Finance was more concerned to involving the Ministry of Planning in the meetings. Probably there was a policy change in there. Previously, the Ministry of Finance didn't see the importance of the Ministry of Planning in this process, merely as a formality. Last year, they started to be interested in performance information. Relatively, we didn't take part intensively in these meetings. (Head of Sub Directorate at the Directorate of State Apparatus, the Ministry of Planning, Interview 19).

Another practitioner from the Directorate of Transportation within the Ministry of Planning stated that he had never attended an RKAKL review meeting. He noted that he only met the officials from the Directorate General of Budget if there was a particular issue that needed to be discussed.

We've never attended RKKALs review meetings. I do not know why we didn't take part in the meetings. We attended a meeting with the Directorate General

of Budget if there was any problem or special issues. (Head of Sub Directorate at the Directorate of Transportation, the Ministry of Planning, Interview 20)

Several officials from the Ministry of Planning indicated their reluctance to be involved in the meetings feeling that the regulation that instructed them to do so was inappropriate. The Minister of Finance was the one who issued the regulation, not the Minister of Planning. One interviewee from the Directorate of Religion, Culture, Youth, and Sport noted that, in practice, not all practitioners from the Ministry of Planning attended the RKAKL Review meetings. However the regulation required them to give comments and to sign the minutes of the meeting, they nevertheless were obliged to attend. In conclusion, we can see that the role of government practitioners from the Ministry of Planning in the RKAKL review meetings was merely to fulfil the formal obligation.

I am a bit confused why we were asked to be involved in the RKAKL review meetings. I always said to my colleagues: “By what regulations we were involved (in the RKAKLs reviews)? How far we can make revisions? If this is not clear, it is better if we don’t take part”. (Head of the Directorate of Forestry, the Ministry of Planning, Interview 7)

To be honest, in my opinion, probably my opinion was different from my colleagues, I doubted that I needed to be involved in RKKAL review meetings because the regulation that demanded us to be involved is not strong enough. In reality, not all staff from our ministry (the Ministry of Planning) did take part in these particular review meetings. I have never attended those meetings. But in the end, we had to sign the minutes of meeting. So, reluctantly, we had to fill in the minutes of meeting by giving some comments. (Head of Sub Directorate at the Directorate of Religion, Culture, Youth, and Sport, the Ministry of Planning, Interview 43)

One practitioner from the Directorate of Forestry also suggested that at a minimum there should be a regulation signed by both the Minister of Planning and the Minister of Finance for this mechanism. It appears that this institutional problem needs to be solved first before government practitioners can do their job as intended.

If we are asked to be involved in the RKAKLs review, at least there must be a regulation that is signed by two ministers (Minister of Planning and Minister of Finance) that instructed this duty....If in the review we only “sit” and “see”,

what's the point? It's only wasting our time because we have many other jobs to do. (Head of the Directorate of Forestry, the Ministry of Planning, Interview 7)

An official from the Corruption Eradication Commission commented that neither government practitioners from the Ministry of Planning nor the Directorate General of Budget use performance scores in evaluating budget proposals (RKAKLs). They focused more on performance targets rather than on past achievements.

They (officials from the Ministry of Planning and MOF) did not use the RKAKL performance scores in the budget meeting. They focused on reviewing the performance targets stated in the RKAKL and the budget to achieve the targets. (Head of Division at the Corruption Eradication Commission, Interview 40)

#### The Use of Performance Information by Government Practitioners from the Directorate General of Budget in RKAKL Review Meetings

The results of interviews with line ministry/agency officials regarding the use of performance information by the Directorate General of Budget were mixed. One interviewee from the Audit Board of Indonesia stated that both officials from the Directorate General of Budget and the Ministry of Planning only use performance information to fulfil requirements demanded by regulations. Three other government practitioners from the Ministry of Education, the Ministry of Forestry, and the Audit Board of Indonesia made similar comments, arguing that in RKAKL (work plans and budget document of line ministries/agencies) review meetings officials from the Directorate General of Budget focused on administrative completeness as required by the regulations rather than on performance. Two interviewees noted that when reviewing RKAKL documents, officials from the Directorate General of Budget still focused on the inputs or the cost needed for the activities being planned. They

appeared not to examine performance indicators/targets proposed by line ministries/agencies. This is a comment from one of them.

In reviewing RKAKL documents, officials from the Directorate General of Budget still focused on the input/cost of the activities. We thought that they might review the relationship between proposed-inputs and performance targets (outputs), and they could compare them with past budgets and performance results. (Head of Section at the Audit Board of Indonesia, Interview 02)

However, according to an official from the Ministry of Administrative and Bureaucratic Reform, government practitioners from the Directorate General of Budget had used some performance information in RKAKL review meetings. Another practitioner from the Corruption Eradication Commission confirmed that practitioners from the Directorate General of Budget had reviewed performance information, particularly performance targets, in the meetings.

Yes, officials from the Ministry of Finance used performance information in the budget meetings. They asked for our performance targets that are documented in the RKAKL. (Head of Division at the Corruption Eradication Commission, Interview 40)

When asked whether government practitioners used the RKAKL performance scores when reviewing RKAKL documents, one practitioner from the Ministry of Forestry commented that he never saw the RKAKL performance scores were being discussed in the meetings.

I never saw that they had the RKAKL performance scores in their hands when reviewing our budget proposals. (Head of Division at the Ministry of Forestry, Interview 36)

Turning to the viewpoints from government practitioners of the Directorate General of Budget, an official from the Directorate of Budget III within the Directorate General of Budget explained that in his opinion the aim of RKAKL reviews is to examine whether the budgets proposed by line ministries in their RKAKLs conformed to the budgets issued by the Minister of Finance. As trilateral meetings, the RKAKL

reviews meetings are attended by officials from the Ministry of Planning, line ministries/agencies, and the Directorate General of Budget (DGB). The officials from the Directorate General of Budget examined the RKAKLs from the fiscal side. The role of officials from the Ministry of Planning was to examine the relationship between performance targets and the budget. However, according to him, officials from the Ministry of Planning did not in fact do the job. All functions were carried out by officials from the Directorate General of Budget (DGB).

They should examine whether the RKAKL was relevant to the RKP [the annual government work plan]. However, all those roles were carried out by the DGB, with the reason just because we were “the final gate” to release the budget execution documents (DIPA). Everyone pretended that the DGB guaranteed that everything matched, such as performance targets, costs standards, and the budget. Actually, the DGB couldn’t make such guarantee... (Head of Section at the Directorate of Budget III, the Directorate General of Budget, Interview 29)

He argued that the Directorate General of Budget has no authority to examine the relationship between performance targets and the proposed budget. He further commented that the Directorate General of Budget has handed over the accountability for preparing RKAKL documents to line ministries/agencies.

One of the principles of performance budgeting is let the managers manage, right? Let them handle this. We required them to be responsible to the budget they proposed. Our duty is rather to assist them (in preparing RKAKLs). (Head of Section at the Directorate of Budget III, the Directorate General of Budget, Interview 29)

His argument was supported by his colleague from the Directorate of Budget I. However, he hoped that the Directorate General of Budget would be given more power to review the RKAKL documents.

We did not have enough authority to review the relationship between proposed-budget and performance targets. We simply focused on whether each ministry has fulfilled its administrative requirements. I hoped we would be given more authority to review the RKAKLs. (Head of Section at the Directorate of Budget I, the Directorate General of Budget, Interview 24).

He explained that, previously, in reviewing RKAKLs, officials from the Directorate General of Budget did it in great detail, ranging from their terms of reference to their cost structures. They reviewed the correlation between inputs and outputs. With regard to the cost structures, they also reviewed the use of cost standards, the steps in implementing activities, and so on. Since 2013, the Directorate General of Budget has not reviewed the terms of reference and the cost structures of activities.

Previously we could examine the terms of reference and the budget details of RKAKLs. However, we no longer now read the terms of reference and the budget details. As a consequence, we didn't discuss the performance targets of line ministries. (Head of Section at the Directorate of Budget I, the Directorate General of Budget, Interview 24).

Another official from the Directorate of Budget I made a similar comment. However, he noted that although previously he could review RKAKL documents in detail, he still did not review the relationship between the performance targets and the proposed-budgets, having insufficient time to do so.

Before the budget year of 2014, we needed to review the RKAKLs in detail. However we did not review the relationship between the performance targets and the proposed-budgets. We did not have enough time to do that. (Head of Section at the Directorate of Budget I, the Directorate General of Budget, Interview 31).

It is worth noting that another practitioner from the Directorate of Budget II had a different view of this matter. He argued that the current procedure is better than the previous one. As he did not have to examine RKAKLs in detail, so that he could review performance indicators and performance targets in the RKAKL documents.

We review the RKAKL by examining the targeted-outputs. I think the current process is better than the previous one. For example, in the last budget year (2014), we didn't have to examine details. We towards reviewing the performance indicators and targets stated in the RKAKL. (Head of Section at the Directorate of Budget II, the Directorate General of Budget, Interview 26)

Another practitioner from the Directorate of Budget II agreed that to some extent he reviewed performance information in RKAKL documents. He focused on reviewing performance targets in RKAKLs.

In reviewing RKAKLs, we were mainly concerned to review the agreed-performance targets, particularly the national prioritised-activities that have been stated in other documents, such as the annual government work plan (RKP) and the agreement made in the trilateral-meeting. (Head of Section at the Directorate of Budget II, the Directorate General of Budget, Interview 27)

When asked whether budget officials in the Directorate General of Budget have authority to increase or to cut budgets if there was no connection between the performance target and the proposed-budget, another interviewee from the Directorate of Budget II responded negatively.

In the meeting, we asked line ministries/agencies whether their performance targets in the RKAKL documents could be achieved or not. But we don't have authority to ask them to increase their targets or cut their budgets. Line ministries/agencies have full responsibility for the use of their allocated budget. (Head of Section at the Directorate of Budget II, the Directorate General of Budget, Interview 32).

Overall, these results indicated that the involvement of officials from the Ministry of Planning in the RKAKL review meetings was not intensive. Several officials from the Ministry of Planning indicated their reluctance to be involved in the meetings feeling that the regulation that instructed them to do so was inappropriate. They argued that the Minister of Finance was the one who issued the regulation, not the Minister of Planning. It appears that this institutional problem needs to be solved first before government practitioners can do their job as intended. Therefore, the role of government officials from the Ministry of Planning in the RKAKL review meetings was merely to fulfil the formal obligation. The officials from the Directorate General of Budget had more control in these meetings but the findings were varied. Some government officials from line ministries/agencies argued that officials from the

Directorate General of Budget still focused on the inputs or the cost needed for the activities being planned rather examined performance indicators/targets proposed by line ministries/agencies. Several other practitioners from line ministries/agencies and the Directorate General of Budget stated that to some extent the Directorate General of Budget reviewed performance targets in budget documents (RKAKLs). It was worth noting that past performance/performance results had never been discussed in the meetings. In addition, officials from the Directorate General of Budget had no authority to increase or to cut budgets if there was no connection between the performance targets and the proposed-budget by line ministries/agencies.

#### **6.2.4 The Use of Performance Information in Monitoring and Evaluation**

This section aims to examine the extent of use of performance information by government practitioners from the Ministry of Planning and the Directorate General of Budget for the purposes of monitoring and evaluation.

##### The Use of Performance Information in Monitoring and Evaluation by Government Practitioners in the Ministry of Planning

The majority of interviewees from the Ministry of Planning commented that they did perform a monitoring and evaluation process. One official from the Directorate of Water and Irrigation explained in detail how he carried out the monitoring and evaluation process.

Alongside coordination, our main duty is to do monitoring and evaluation. For example, this year [2014] our duty is evaluating the achievement of targets that were included in the government work plan document (RKP) of 2013. How much is the (implementation) gap (from the plan in RKP)? We'll determine this gap. The gap we found then becomes feedback for us to find any problems. If there is an implementation gap, the planned targets [in the RKP] for the following year should also be adjusted. We are comparing the achievement of



the annual targets with the targets stated in the national five-year planning document (RPJMN). We'll inform line ministries/agencies under our responsibility of the results of our evaluation. (Head of Sub Directorate at the Directorate of Water and Irrigation, the Ministry of Planning, Interview 46)

It appeared that the Ministry of Planning only monitored the achievement of performance targets that had been stated in the national medium term development plan (RPJMN). Another practitioner from the Directorate of State Apparatus explained how he monitored the achievement of priority programmes. He noted that that the Ministry of Planning did not monitor and evaluate every component in the budget documents. It also did not monitor the budget spending.

We asked line ministries to submit the report every three-months. In addition, we have coordination meetings that include evaluation meeting. However, in this evaluation we only focused on the policy level. We didn't do on detailed evaluation, such as budget spending of every component of activities, what activities had been covered and so on. Our focus is to see their performance, not their budget spending. (Head of Sub Directorate at the Directorate of State Apparatus, the Ministry of Planning, Interview 19)

One interviewee from the Directorate of Religion, Culture, Youth, and Sport acknowledged that there was a difficulty in monitoring and evaluation.

Although every three months we conduct monitoring and evaluation, our monitoring and evaluation couldn't be thorough enough. This happened because line ministries/agencies didn't submit the data as required. (Head of Sub Directorate at the Directorate of Religion, Culture, Youth, and Sport, the Ministry of Planning, Interview 43)

#### The Use of Performance Information in Monitoring and Evaluation by Government Practitioners in the Directorate General of Budget

A practitioner from the Directorate of Budget III explained that the monitoring and evaluation had been introduced in the Directorate General of Budget after the establishment of the performance evaluation division. Then the Minister of Finance Regulation Number 249/2011 regarding performance evaluation was issued. However, he noted that they were still in the learning stages; they tried to implement

the process, and progressed by trial and error. A practitioner from the Directorate of Budget II acknowledged that his division performed monitoring and evaluation. He used the performance report to calculate reward or punishment to be given to line ministries/agencies under his responsibility. He also frequently asked the ministries/agencies about progress in achieving performance targets. Another practitioner from the Directorate of Budget I commented that he did not perform evaluation because he was too busy with other routine tasks such as processing budget amendments proposed by line ministries/agencies under his responsibility. He also stated that he did not have time to read performance reports submitted by line ministries/agencies.

When asked what kind of performance measures they used for monitoring purposes, three practitioners stated that they only used the budget spending data. One of them explained why he only used the budget spending data.

We have a system in our office to monitor performance achievement of line ministries/agencies. However, in that system we can only see their budget spending, there is no information on outputs achieved. Line ministries/agencies don't update their output achievements regularly. (Head of Section, the Directorate of Budget II, the Directorate General of Budget, Interview 32).

Another practitioner said that because they did not have a further guideline on the use of performance evaluation results they only used budget allocations and budget spending data for evaluating line ministries/agencies' performance. As revealed by one practitioner from the Directorate of Budget III, another difficulty in using performance information for evaluation is that there is a time lag between the performance information and the budget year.

Taken together, the majority of officials from the Ministry of Planning undertook monitoring and evaluation process by monitoring the achievement of performance

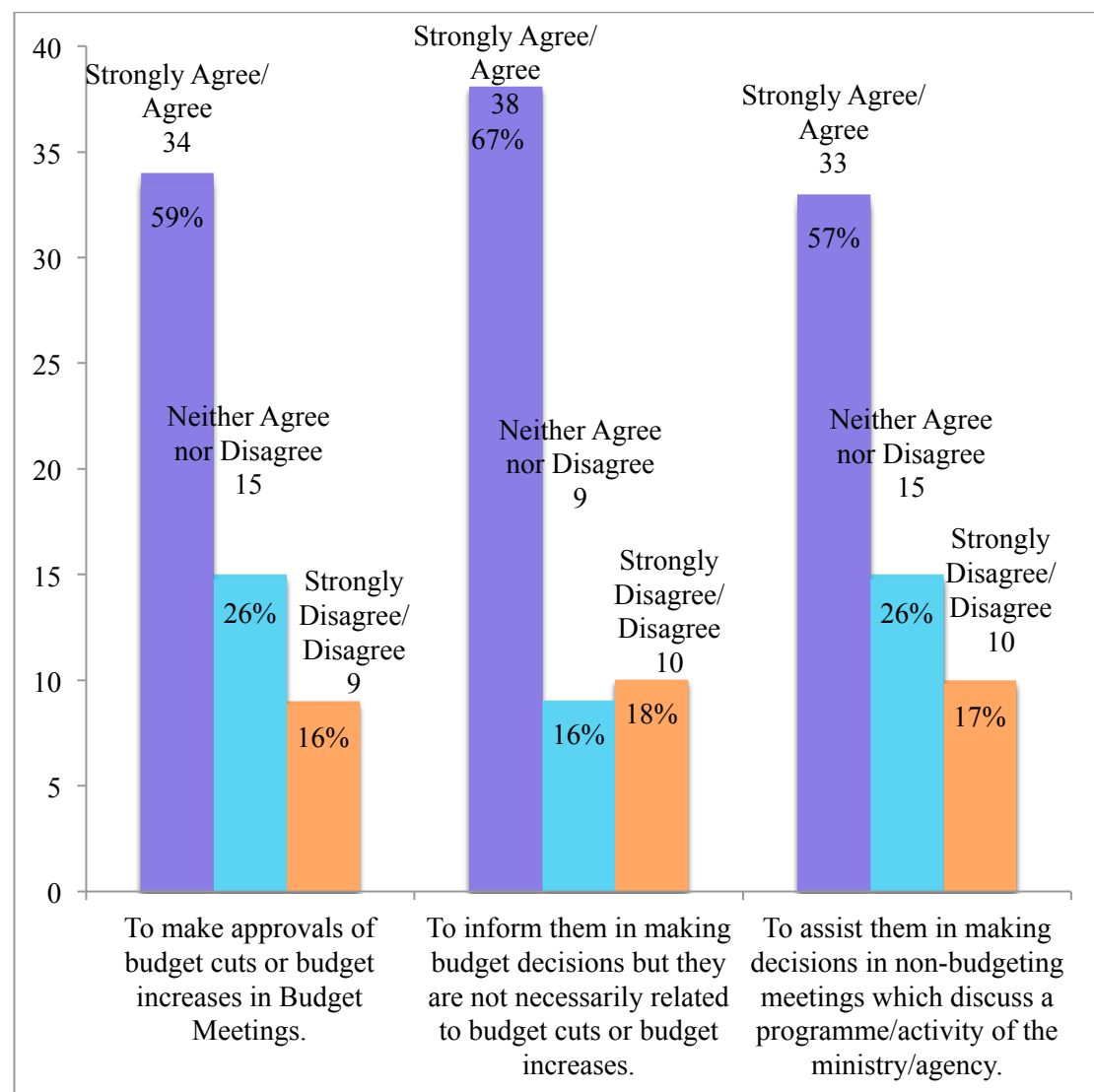
targets stated in the national medium term development plan (RPJMN). However, they found difficult to monitor because line ministries/agencies sometime did not submit the data as required. In general, government officials from the Directorate General of Budget only monitored the budget spending of line ministries/agencies. Although they had a system to monitor performance of line ministries, line ministries did not update their progress regularly. Officials of the Directorate General of Budget did not do evaluation process because there is no guidance for them to do the evaluation. It was revealed that they were still in learning stages in monitoring and evaluation.

### **6.3 How the Legislature Uses Performance Information**

This section reports the views of government practitioners on the use of performance information by Members of Parliament (DPR). Figure 6.7 reports the results of the questionnaire that asked about this issue. Out of 58 respondents, 59% of respondents (n = 34) strongly agreed/agreed with the statement that Members of Parliament used performance information to make approvals of budget cuts or budget increases in budget meetings. However, a quarter of respondents (26% or n = 15) neither agreed nor disagreed with that statement. The remaining 16% of respondents (n = 9%) strongly disagreed or disagreed with it. The number of respondents who strongly agreed/agreed is higher when responding to the statement that, “Members of Parliament use performance information to inform them in making budget decisions but they are not necessarily related to budget cuts or budget increases.” Two-thirds of respondents (n = 38) strongly agreed/agreed with it. However, the number of respondents who strongly disagreed/disagreed was still quite high (n = 10 or 18%). A small majority of respondents (57% or n = 33) strongly agreed/agreed with the

statement that, “Members of Parliament use performance information to assist them in making decisions in non-budgeting meetings that discuss a programme/activity of ministry/agency.” A quarter of respondents (26% or n = 15) neither agreed nor disagreed and 17% or respondents (n = 10) strongly disagreed/disagreed with this statement. Overall, the results of the questionnaire indicate that a small majority of respondents viewed that Members of Parliament had used performance information in assisting them to make decisions in the budgeting process.

**Figure 6.7: Performance Information Use by Members of Parliament**



Turning now to the interview results with government practitioners from the Ministry of Planning, the Directorate General of Budget, and line ministries/agencies. When asked whether Members of Parliament used performance information in the budgetary process, two practitioners from the Ministry of Planning stated that they did not. One practitioner from the Office of the Deputy of Development Funding said that the Parliament concentrated more on their political interests, such as their party and constituents' aims, rather than looking at performance information, in making decisions. However, one practitioner from the Directorate of Transportation said that, based on his experience in budget meetings at the Parliament, to some extent Members of Parliament did use performance information.

Six practitioners from the Directorate General of Budget also stated that Members of Parliament did not use performance information in budgeting decisions. Three of them commented that Members of Parliament were more concerned with their political interests and constituents than performance information. However, one practitioner from the Directorate of Budget I noted that some Members of Parliament *were* concerned with performance information. They used it for making comparisons and evaluations. One practitioner from the Directorate of Budget III argued that the reason why Members of Parliament did not use performance information was because they play in the political arena. He argued that performance information should be used more by 'technocrats' in the Ministry of Planning, the Ministry of Finance, and line ministries/agencies. He further argued that Members of Parliament still used the percentage of budget spending in assessing the government's performance. Another practitioner from the Directorate of Budget II commented that the Parliament was more concerned with the fiscal space in allocating budgets for ministries/agencies.

While three practitioners from line ministries/agencies noted that to some extent Members of Parliament used performance information in the budgeting process, twelve practitioners from seven different ministries/agencies commented that Members of Parliament did not use it. One practitioner from the Ministry of Public Work explained that although Members of Parliament did not know about performance scores, they were concerned with performance targets and programmes that would be implemented by ministries. Another practitioner from the same ministry stated that Members of Parliament used performance information that they viewed important for citizens. One practitioner from the Government Procurement Policy Agency also commented that Members of Parliament were only concerned with performance information that had a major impact on the public. Three practitioners from the Ministry of Education and Culture, the Ministry of Public Works, and the Ministry of Administrative & Bureaucratic Reform, argued that Members of Parliament did not use performance information and that they were more concerned with budgets for their constituents. Two other practitioners from the Government Procurement Policy Agency and the Ministry of Forestry noted that Members of Parliament were more concerned about budget spending than performance information. According to two practitioners from the Audit Board of Indonesia, one reason why Members of Parliament made little use of performance information was because the performance information gathered from the Ministry of Planning and the Ministry of Finance was very limited. They did not have enough information. A practitioner from the Ministry of Public Works also commented that Members of Parliament depended on information given by line ministries/agencies. They did not

have any other alternative information that could be used to challenge the information given by line ministries/agencies.

One Member of Parliament commented that the implementation of performance-based budgeting by Members of Parliament was ineffective because it mostly depended on the policy of each party in the Parliament. He pointed out that line ministries/agencies have a pattern of increasing their budget proposals by around 10% every budget year. He also mentioned that performance information could not be implemented in certain sectors such as education because the government must allocate a fixed percentage for education as obliged by the law. He further mentioned that one problem with the use of performance information by Members of Parliament was that it was provided infrequently by the government.

The results in this section indicate that generally Members of Parliament did not use performance information in budgeting decisions. Members of Parliament were more concerned with their political interests and constituents than performance information. Members of Parliament still used the percentage of budget spending in assessing the government's performance and more concerned with the fiscal space in allocating budgets for ministries/agencies. A Member of Parliament commented that the implementation of performance-based budgeting by Members of Parliament was ineffective because it mostly depended on the policy of each party in the Parliament. He pointed out that line ministries/agencies have a pattern of increasing their budget proposals by around 10% every budget year. He further mentioned that one problem with the use of performance information by Members of Parliament was that it was provided infrequently by the government.

## **6.4 How Government Practitioners of Ministries/Agencies Use Performance Information**

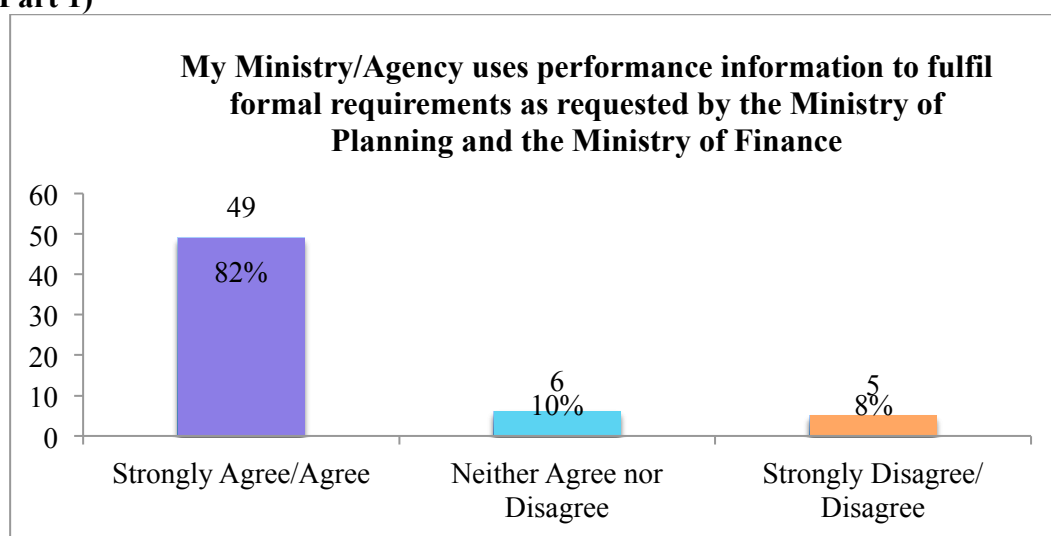
This section reports on the use of performance information in line ministries/agencies in three main areas. Firstly, it reports on the use of performance information in the budgeting process related to budget authorities, i.e. the Ministry of Planning and the Ministry of Finance. In particular, it presents findings on how government practitioners in line ministries/agencies use performance information in preparing budget proposals/the work plans and budgets documents of line ministries/agencies (RKAKLs) to be submitted to those budget authorities. Secondly, it reports findings on how government practitioners use performance information in allocating budgets within ministries/agencies. Lastly, it reports findings on the use of performance information for managerial purposes within ministries/agencies.

### **6.4.1 How Government Practitioners in Line Ministries/Agencies Use Performance Information in Preparing Budget Proposals**

Figures 6.8 to Figure 6.10 report findings from the questionnaire related to a variety of performance information uses by line ministries/agencies in preparing budget proposals to be submitted to the Ministry of Planning and the Directorate General of Budget. A large majority of respondents (82% or  $n = 49$ ) strongly agreed/agreed with the statement that their line ministries/agencies use performance information to fulfil formal requirements as requested by the Ministry of Planning and the Ministry of Finance. Only 8% of respondents ( $n = 5$ ) strongly disagreed/disagreed. The remaining one-tenth of respondents ( $n = 6$ ) neither agreed nor disagreed (See Figure 6.8).

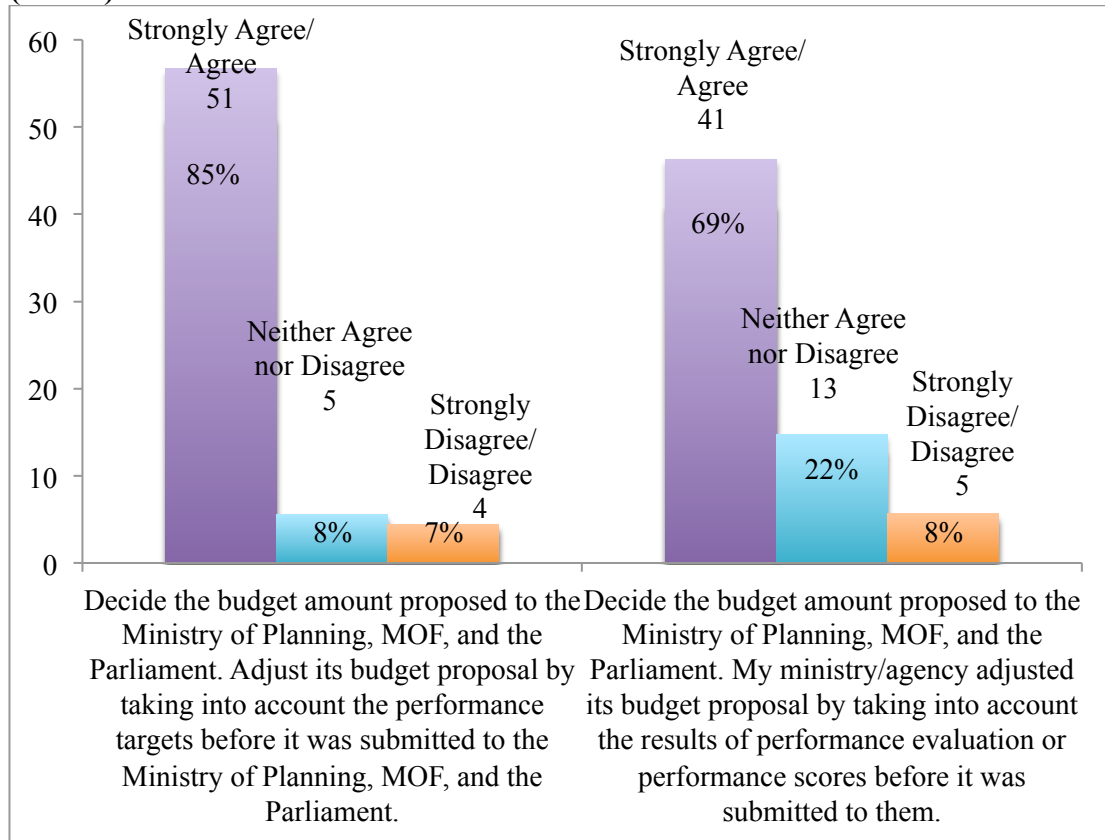


**Figure 6.8: The Use of Performance Information by Line Ministries/Agencies (Part 1)**



With regards to the use of performance information to decide the budget amount proposed to the Ministry of Planning, the Ministry of Finance, and the Parliament, a large majority of respondents (85% or  $n = 51$ ) strongly agreed/agreed that their ministries/agencies adjusted their budget proposals by taking into account the performance targets before the proposals were submitted to the Ministry of Planning, the Ministry of Finance (MOF), and the Parliament. Only 7% of respondents ( $n = 4$ ) strongly disagreed/disagreed. As expected, a lower percentage of respondents (69% or  $n = 41$ ) strongly agreed/agreed with the statement that their ministries/agencies adjusted their budget proposals by taking into account the results of performance evaluation or performance scores before the budget proposals were submitted to the Ministry of Planning, the Ministry of Finance, and the Parliament. Just over one-fifth of respondents (22% or  $n = 13$ ) neither agreed nor disagreed. The remaining 8% of respondents ( $n = 5$ ) strongly disagreed/disagreed with this statement. In summary, when preparing budget proposals, a large majority of respondents acknowledged that their ministries/agencies gave attention to the future performances as well as past performances before their budget proposals were submitted to the budget authorities.

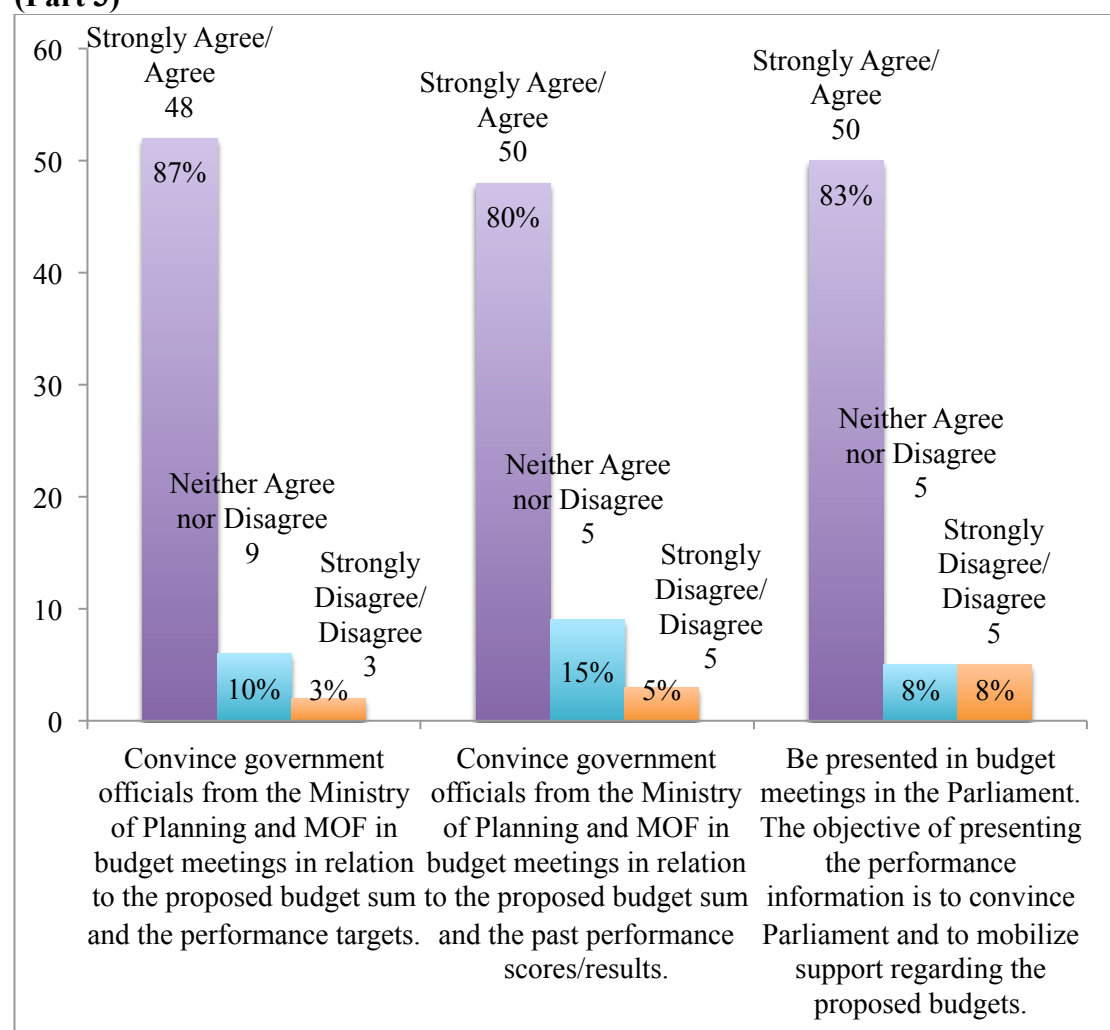
**Figure 6.9: The Use of Performance Information by Line Ministries/Agencies (Part 2)**



In relation to performance information use in budget meetings, again, a large majority of respondents (87% or  $n = 52$ ) strongly agreed/agreed with the statement that they used performance information to convince government officials from the Ministry of Planning and the Ministry of Finance (MOF) in budget meetings that the proposed budget amount was appropriate with the performance targets. Only 3% of respondents ( $n = 2$ ) strongly disagreed or disagreed with this statement (See Figure 6.10). A large majority of respondents (80% or  $n = 48$ ) also strongly agreed/agreed that they used performance information to convince government officials from the Ministry of Planning and the Ministry of Finance (MOF) in budget meetings that the proposed budget amount was related to the past performance scores/results. Only 5% of the respondents strongly disagreed/disagreed and 15% ( $n = 9$ ) of respondents neither

agreed nor disagreed with this statement. A large majority of respondents also strongly agreed/agreed (83% or n = 50) that their ministries/agencies presented performance information in budget meetings in Parliament. They used performance information to convince Parliament and to mobilise support regarding the proposed budgets (See Figure 6.10).

**Figure 6.10: The Use of Performance Information by Line Ministries/Agencies (Part 3)**



Turning to the findings from the interviews, according to comments from government practitioners in line ministries/agencies, there is evidence that line ministries/agencies use performance information in the budgeting process. Two interviewees noted that

their ministries/agencies considered performance targets when proposing a budget to the Ministry of Planning and the Ministry of Finance.

In making a budget proposal, we considered our performance targets. We had a reviewing process to consider the relationship between our targets and the budget needed. This was done before we met with the Ministry of Planning and MOF officials in the trilateral meeting. (Head of Planning Bureau, the Ministry of Education and Culture, Interview 04).

We tried to follow the performance targets stated in our strategic plan when determining budget allocations within our ministry or submitting budget proposals to the Ministry of Planning. (Head of Section, the Ministry of Public Work, Interview 11)

However, a government practitioner of the Audit Board of Indonesia commented that he could only use performance information, in the form of past achievements and performance targets, to review a small number of activities proposed by divisions within his agency. For most activities, he still used the budget trend or budget amount as a basis to review budget proposals.

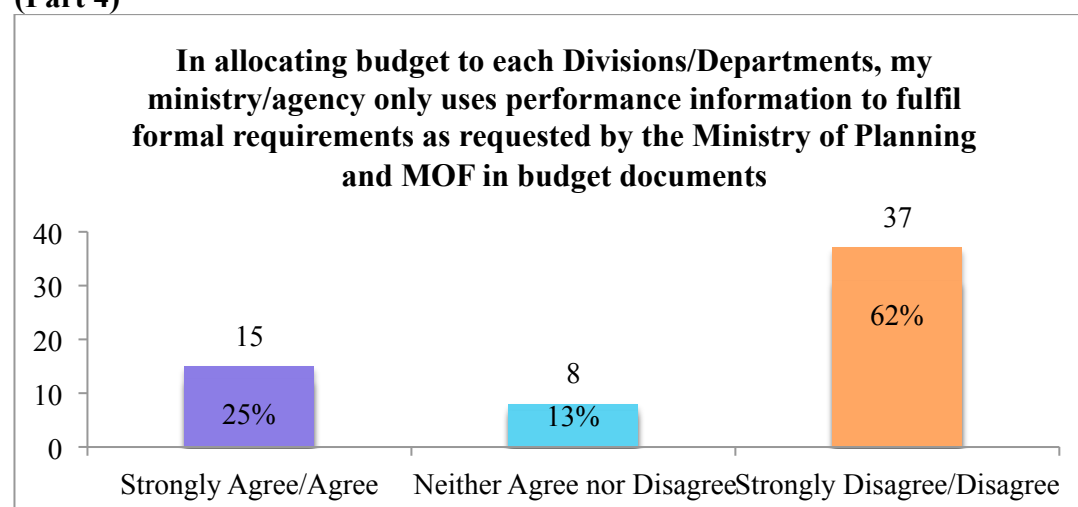
These results suggest that the majority of line ministries/agencies used performance information in preparing budget proposals and budget documents (RKAKLs) to be submitted to the Ministry of Planning and the Ministry of Finance. They also used performance information to convince budget examiners from those ministries. Performance information was also presented during budget meetings in the Parliament to get support from them.

#### **6.4.2 How Government Practitioners in Line Ministries/Agencies Use Performance Information in Allocating Budgets within Their Ministries/Agencies**

This section reports the findings of performance information use by line ministries/agencies in allocating budgets within their ministries/agencies. Figures 6.11

to 6.14 present the results of the questionnaire that asked respondents from line ministries/agencies to give their views on how their line ministries/agency used performance information in allocating budgets within their ministries/agencies. Almost two-thirds of respondents (62% or  $n = 37$ ) strongly disagreed/disagreed with the statement that in allocating budget to each division/department within their ministries/agencies, they only used performance information to fulfil formal requirements, as requested by the Ministry of Planning and the Ministry of Finance (MOF) in budget documents. However, a quarter of respondents ( $n = 15$ ) strongly agreed/agreed that the use of performance information was used only to fulfil formal requirements. The remaining 13% or respondents neither agreed nor disagreed with this statement (See Figure 6.11).

**Figure 6.11: The Use of Performance Information by Line Ministries/Agencies (Part 4)**



In relation to the use of performance information for cutting or increasing budgets proposed by each division/department, just above half of the respondents (57% or  $n = 34$ ) strongly agreed/agreed that their ministries/agencies used it to cut or increase the amount of budget. A quarter of respondents ( $n = 15$ ) strongly disagreed/disagreed and almost one-fifth of respondents (18% or  $n = 11$ ) neither agreed nor disagreed with this statement (See Figure 6.12).

**Figure 6.12: The Use of Performance Information by Line Ministries/Agencies (Part 5)**

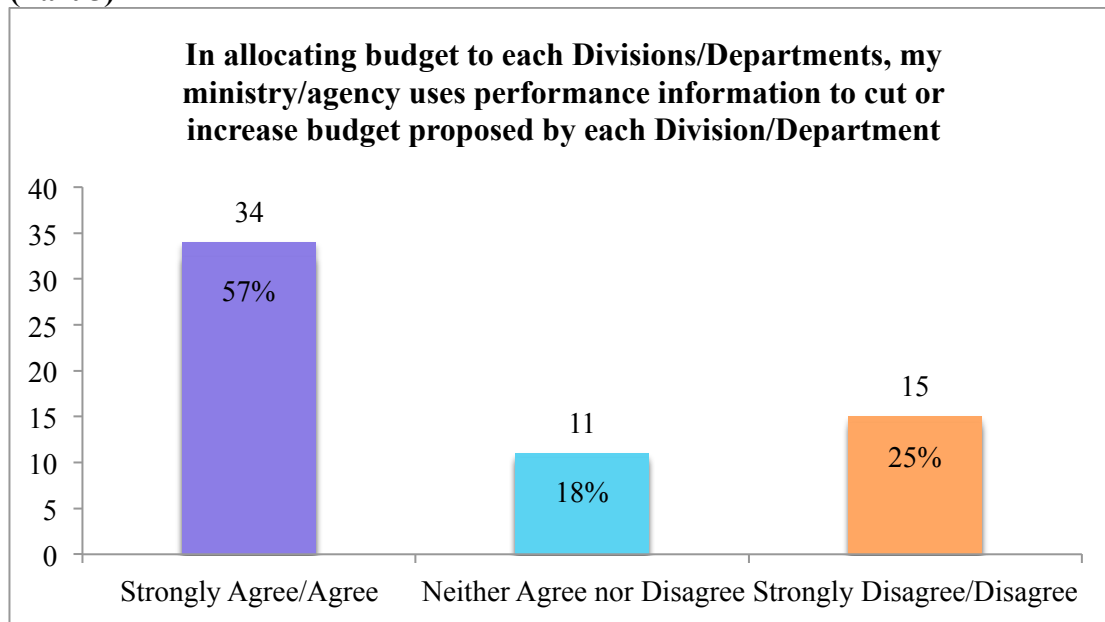
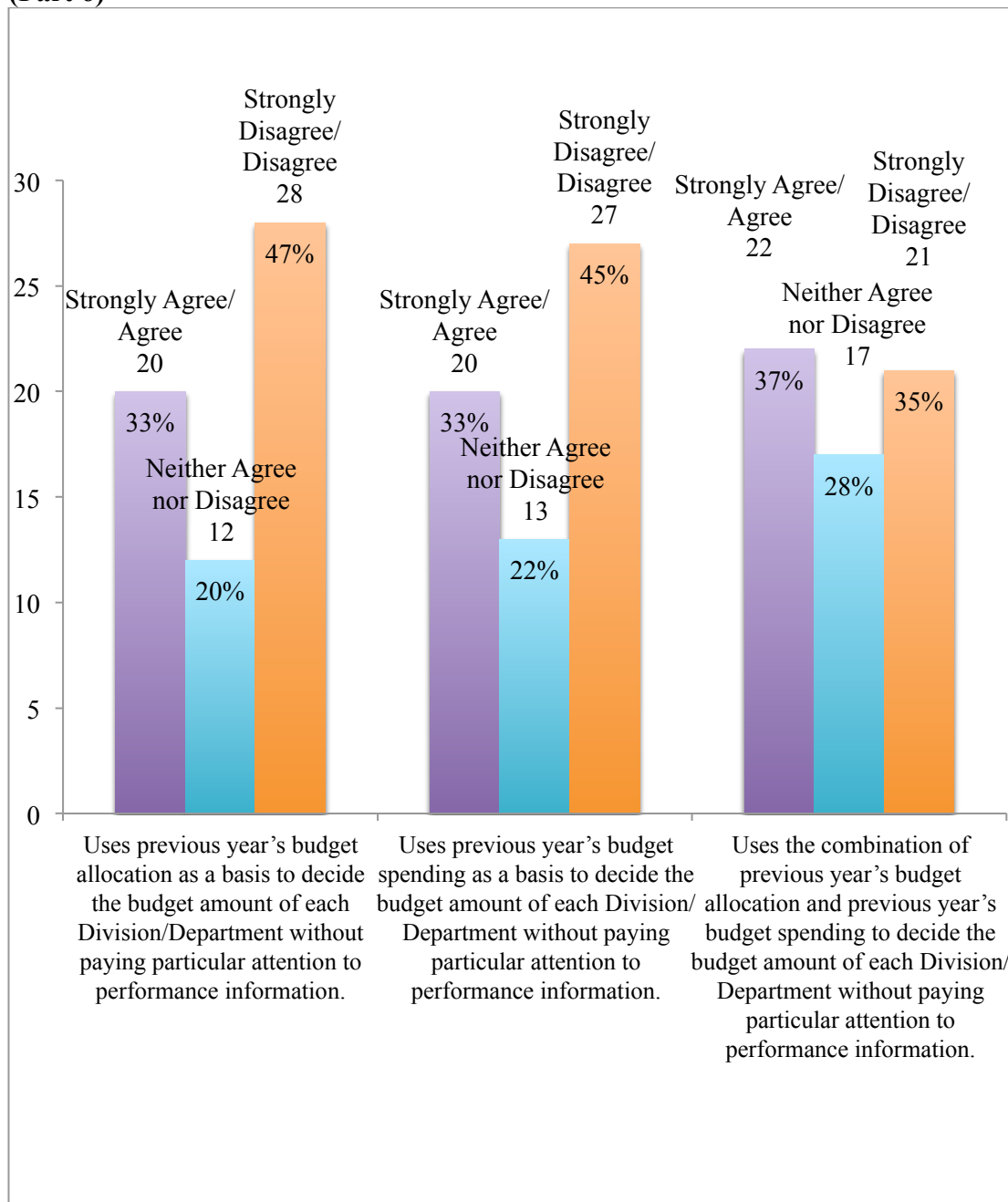


Figure 6.13 presents the results of the questionnaire that asked whether government practitioners from line ministries/agencies still used past budget allocations and past budget spending as the main factors, without paying particular attention to performance information, in allocating budgets within their ministries/agencies. Just under half of the respondents (47% or  $n = 28$ ) strongly disagreed or disagreed with the statement ‘In allocating a budget to each Divisions/Departments, my ministry/agency uses previous year’s budget allocation as a basis to decide the budget amount of each Division/Department, without paying particular attention to performance information.’ However, one-third of respondents (33%) strongly agreed/agreed with this statement, meaning that they still relied on past budget allocations in determining a budget. The remaining one-fifth of respondents ( $n = 12$ ) neither agreed nor disagreed with this statement. Asked about the following statement, “In allocating a budget to each Divisions/Department, my ministry/agency uses the previous year’s budget spending as a basis to decide the budget amount of

each Division/Department without paying particular attention to performance information,” just under half of respondents (45% or  $n = 27$ ) also strongly disagreed/disagreed with it. However, one-third of respondents ( $n = 20$ ) strongly agreed/agreed and around one-fifth of respondents (22% or  $n = 13$ ) neither agreed nor disagreed that they still used past budget spending in allocating budgets for their divisions without paying particular attention to performance information. In response to the statement, ‘In allocating budget to each Divisions/Department, my ministry/agency uses a combination of the previous year’s budget allocation and the previous year’s budget spending to decide the budget amount of each Division/Department, without paying particular attention to performance information’, just over one-third of respondents (37% or  $n = 22$ ) strongly agreed/agreed with it. However, almost the same proportion of respondents (35% or  $n = 21$ ) strongly disagreed/disagreed. The remaining 28% of respondents ( $n = 17$ ) neither agreed nor disagreed. From the mixed responses of respondents to those three statements, it can be perceived that to some extent performance information was considered by line ministries/agencies in the allocation of budgets for their subordinates. However, past budget allocations and past budget spending also still played key roles in determining the budgets.

**Figure 6.13: The Use of Performance Information by Line Ministries/Agencies (Part 6)**

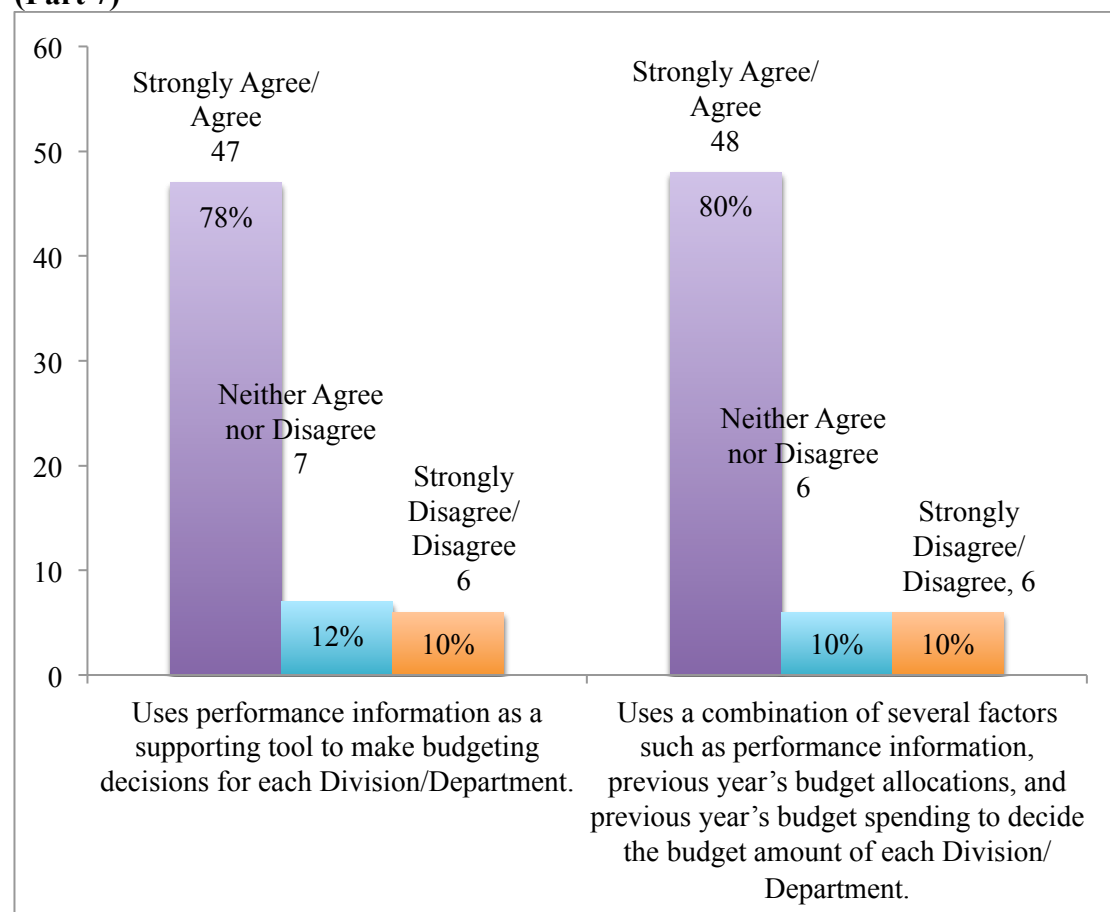


The results of the questionnaire in Figure 6.14 confirmed that performance information is used to some extent by line ministries/agencies as a supporting tool to make budgeting decisions within their ministries/agencies. A large majority of respondents (78% or  $n = 47$ ) strongly agreed/agreed with the statement 'In allocating a budget to each Divisions/Department, my ministry/agency uses performance information as a supporting tool to make budgeting decisions for each



Division/Department.’ Only one-tenth of respondents strongly disagreed/disagreed and the remaining 12% of respondents (n = 7) neither agreed nor disagreed with it. A large majority of respondents (80% or n = 48) also strongly agreed/agreed with the statement ‘In allocating a budget to each Divisions/Department, my ministry/agency uses a combination of several factors such as performance information, the previous year’s budget allocations, and the previous year’s budget spending, to decide the budget amount of each Division/Department’. Only one-tenth of respondents (n = 6) strongly disagreed/disagreed.

**Figure 6.14: The Use of Performance Information by Line Ministries/Agencies (Part 7)**



Overall, the results in Figure 6.13 and 6.14 indicate that a large majority of line ministries/agencies had tried to consider performance information in determining

budgets within their ministries/agencies. However, past budget allocations and past budget spending still played important roles in affecting decisions of government practitioners from line ministries/agencies in allocating budgets.

Summarising from their responses to the open question of the questionnaire, fifteen line ministries/agencies noted various other factors they used in determining a budget: priorities or policies from top management; national priority activities; the number of personnel; the fulfillment of the operational budget; the availability of personnel to implement the activities; the roles of each division; the budget needs for special cases or special activities such as natural disasters and riot countermeasures; and the budget for capital asset expenditures.

Turning to the findings from the interviews, five practitioners from different ministries/agencies explained how they allocated a budget within their ministries/agencies. An official from the Ministry of Education and Culture commented that his ministry considered past performance as one of the tools to allocate budget within his ministry. However, the category of the past performance used for determining a budget was still the past budget spending. Furthermore, he explained that the Ministry of Education and Culture should consider the performance targets stated in the national five-year plan (RPJMN), the instructions of the President, and its responsibilities as regulated in the laws. Another practitioner from the Government Procurement Policy Agency (LKPP) explained that in allocating a budget to each division, LKPP considered its past years' budget spending, performance targets, and the direction from its top management. Within the agency, they conducted budget discussions with each division regarding the relationship

between its performance targets and the proposed-budget. Moreover, they also reviewed past performance. One practitioner from the Ministry of Administrative and Bureaucratic Reform also explained that in allocating a budget, they considered two things, past performance and budget spending, prior to a negotiation between the Planning Bureau and each division. The process was iterative. However, he emphasised that the connection between budget allocations and these two factors are indirect. Another practitioner from the Corruption Eradication Commission explained that his agency did not use performance evaluation, such as budget spending or output achievement, in allocating a budget within the agency. Instead, they allocated a budget for every division based on its budget proposal. They evaluated all proposals, and then decided budgets for all divisions. Therefore, their focus was performance targets of the following budget year. They also would consider the total budget given by the government. As the budget given by the government was limited, sometimes they have to negotiate with their subordinate divisions informally by looking at the past years' budget spending.

Overall, these results indicate that small majority of line ministries/agency used performance information to cut or increase the budget proposed by each division/department within their ministry/agency. In addition, performance information, along with other factors, was considered by line ministries/agencies in the allocation of budgets for their subordinates. However, past budget allocations and past budget spending also still played key roles in determining the budgets.

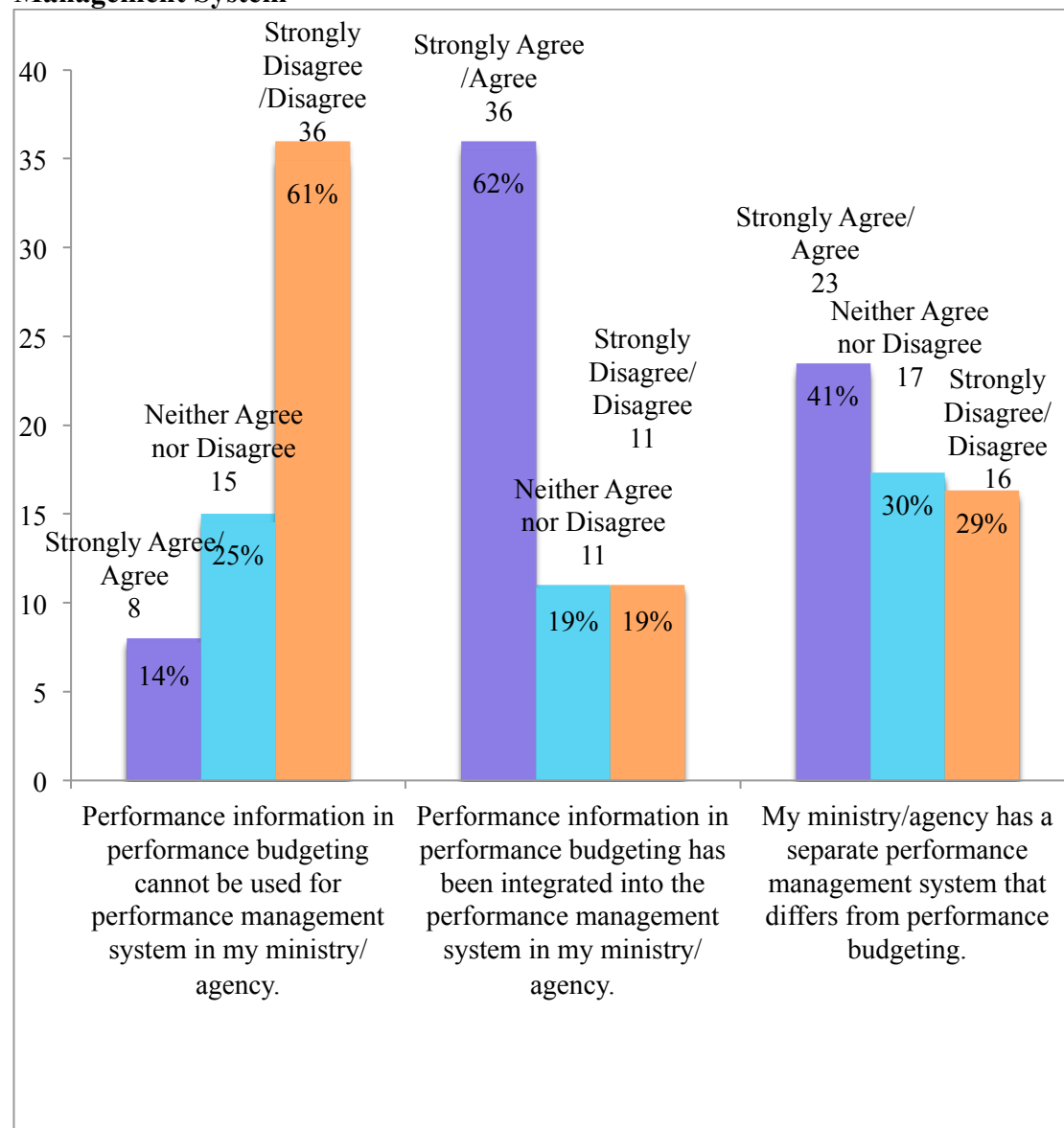
### **6.4.3 The Use of Performance Information for Managerial Purposes**

While the previous two sections discuss findings related to performance information in the budgeting process, this section reports findings about the use of performance information for managerial purposes within line ministries/agencies. The respondents were asked to comment on various statements relating to performance information use for different purposes.

Figure 6.15 reports findings related to performance information in the performance management system of line ministries/agencies. When asked whether performance information in performance budgeting cannot be used for performance management in their ministry/agency, just less than two-thirds of respondents (61% or n = 36) strongly disagreed/disagreed with it. A quarter of respondents (25% or n = 15) neither agreed nor disagreed and 14% of respondents (n = 8) strongly agreed or agreed with this statement. Almost two-thirds of respondents (62% or n = 36) strongly agreed/agreed with the statement that, 'performance information in performance budgeting has been integrated into the performance management system in their ministry/agency.' However, just less than one-fifth of respondents (19% or n = 11) strongly disagreed/disagreed with this. There were also about one-fifth of respondents (19% or n = 11) who neither agreed nor disagreed with this statement. When the respondents were asked whether their ministry/agency has a separate performance managements system that differs from performance budgeting, 41% of respondents (n = 23) strongly agreed/agreed with this. However 29% of respondents (n = 16) strongly disagreed/disagreed and there were 30% of respondents (n = 17) who neither agreed nor disagreed with this statement. From the views of respondents to those three statements, a small majority of respondents perceived that performance

information in performance budgeting could also be used for performance management and it has been integrated into the performance management system in the ministry/agency.

**Figure 6.15: The Use of Performance Information in the Performance Management System**

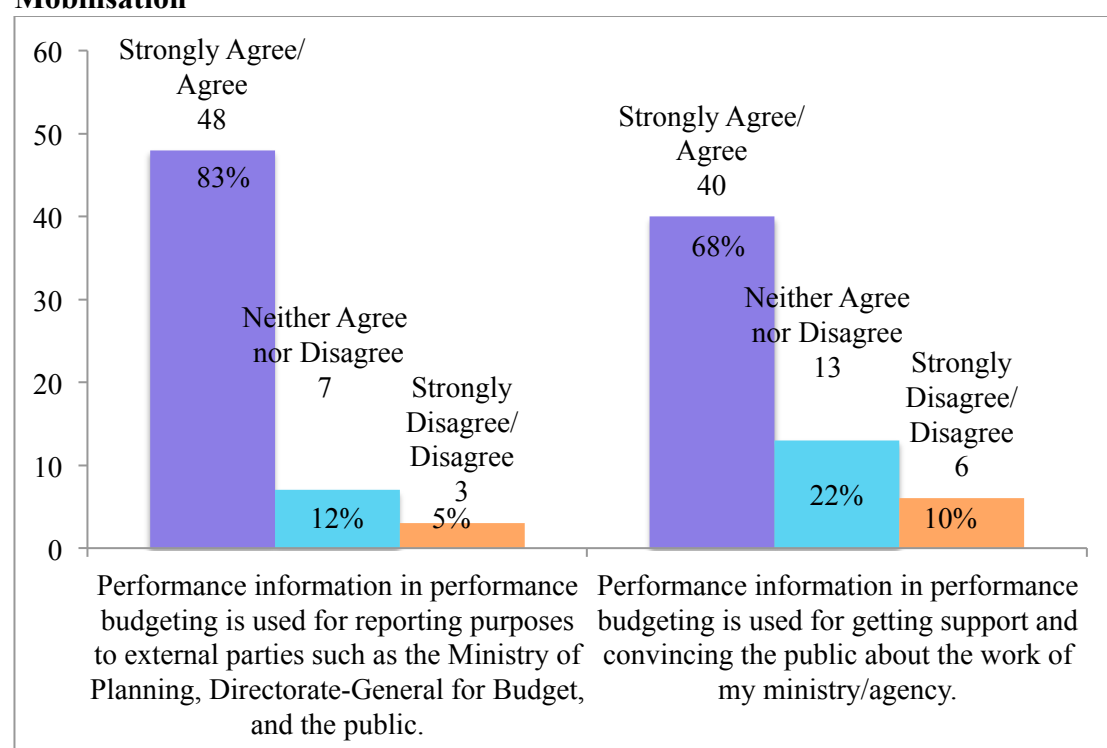


Turning to the use of performance information for accountability and getting support from the public, Figure 6.16 reports findings of the questionnaire related to these two issues. A large majority of respondents (83% or n = 48) strongly agreed/agreed with the statement that, ‘performance information in performance budgeting is used for

reporting purposes to external parties such as the Ministry of Planning, the Directorate General of Budget, and the public.’ Only 5% of respondents (n = 3) strongly disagreed/disagreed and 12% of respondents neither agreed nor disagreed with this (See Figure 6.16). From their responses, it can be seen that line ministries/agencies used performance information for accountability purposes to external parties.

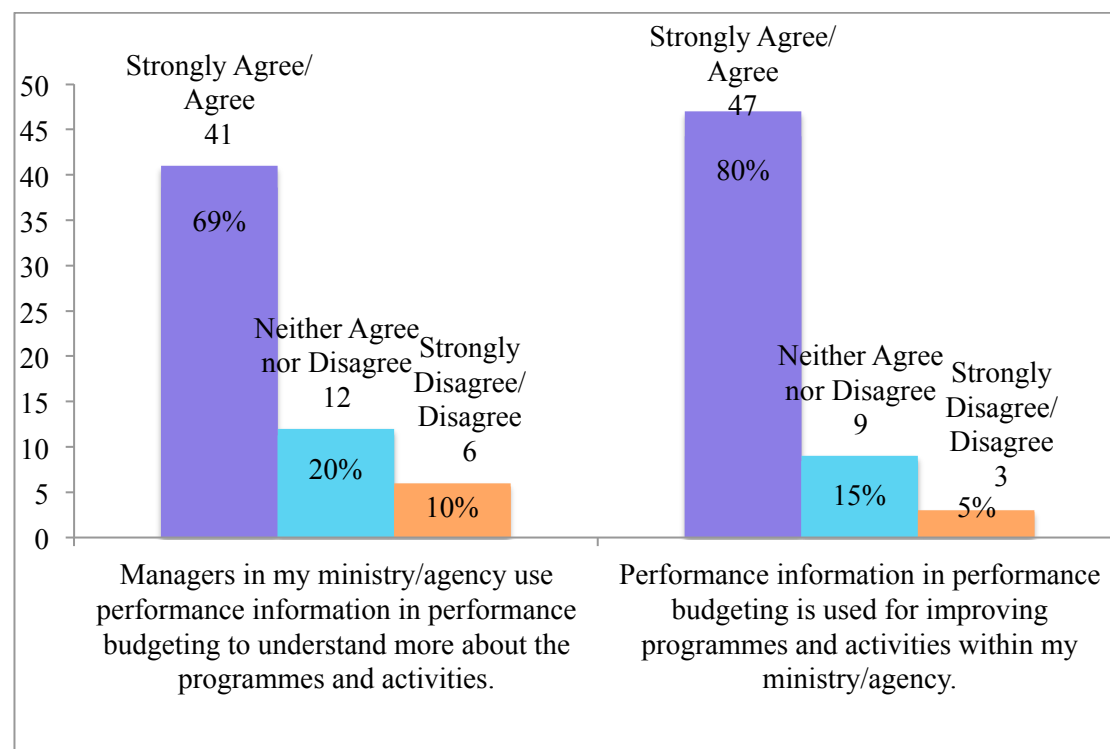
The respondents were also asked whether performance information in performance budgeting was used for getting support and convincing the public about the work of their ministry/agency (mobilisation purposes), about two-thirds of respondents strongly agreed or agreed with this statement. However, around one-fifth of respondents (22% or n = 13) neither agreed nor disagreed and one-tenth of respondents (n = 6) strongly disagreed or disagreed (See Figure 6.16). It can be concluded that a small majority of line ministries had used performance information for mobilisation purposes.

**Figure 6.16: The Use of Performance Information For Accountability and Mobilisation**



With regards to the use of performance information for improvement purposes in the line ministries/agencies, 70% of the respondents (n = 41) strongly agreed/agreed with the statement that managers in their ministry/agency used performance information in performance budgeting to understand more about the programmes and activities. Only one-tenth of the respondents (n = 6) strongly disagreed/disagreed and one-fifth of the respondents (n = 12) neither agreed nor disagreed with it. When asked whether performance information in performance budgeting is used for improving programmes and activities within their ministry/agency, a large majority of respondents (80% or n = 47) strongly agreed/agreed. Only 5% of respondents (n = 3) strongly disagreed/disagreed and 15% of respondents (n = 9) neither agreed nor disagreed (See Figure 6.17). Therefore it can be inferred that a large majority of respondents use performance information for improvement purposes.

**Figure 6.17: The Use of Performance Information For Improvement**



In summary, these results suggest that government practitioners in line ministries/agencies used performance information in performance-based budgeting for managerial purposes. Performance information in performance-based budgeting could also be used for performance management and it has been integrated into the performance management system in line ministries/agencies. The majority of line ministries/agencies used performance information for reporting purposes to external parties, such as the Ministry of Planning, the Ministry of Finance, and the public. Performance information was also used to get support and convince the public about the work of the ministry/agency. A large majority of line ministries/agencies revealed that the managers in their ministries/agencies used performance information to understand more about their programmes/activities and they used performance information for improvement their programmes/activities.

## **6.5 Conclusion**

This Chapter has discussed findings of the extent of the use of performance information by government practitioners in the Ministry of Planning, the Directorate General of Budget within the Ministry of Finance, the Parliament, and the line ministries/agencies.

It has been found that government practitioners from both the Ministry of Planning and the Directorate General of Budget in the Ministry of Finance initiated the use of performance information in the various stages of planning and budgeting. While the use of performance information by those authorities did not necessarily affect budget decisions, performance information had been used during the various stages of planning and budgeting process, such as in RKAKL review meetings and monitoring



and evaluation. However, practitioners from both institutions rarely used past performance information or RKAKL performance scores in the process. They were more interested in future performance or performance targets.

The research has shown that the use of performance information by Members of Parliament was limited. While they used performance information in assisting them to make decisions in the budgeting process, their decisions were more political than technical.

The research has indicated that line ministries/agencies had endeavoured to consider performance information in determining budgets within their ministries/agencies. However, past budget allocations and past budget spending still played key roles in affecting the decisions. As with budget decisions by the Ministry of Planning and the Directorate General of Budget, there was no direct link between performance and budget allocations within line ministries/agencies.

Regarding the use of performance information within line ministries/agencies for other purposes beyond the planning and budgeting process, the research has identified that they used performance information in performance based budgeting as part of their performance management system. Government practitioners in line ministries/agencies also used performance information for accountability, mobilisation, and improvement purposes.

Overall, the research has identified that use of performance information by government practitioners in Indonesia has definitely been initiated but was at an early stage of adoption.

In the next chapter the challenges encountered by government practitioners in implementing performance based budgeting will be discussed.

## **Chapter 7 - Challenges in Implementing Performance-Based Budgeting in Indonesia**

### **7.1 Introduction**

This chapter reports the findings relating to Research Question Number Four, ‘What challenges have government practitioners encountered in seeking to implement performance-based budgeting?’ The findings are collected from the interviews and the questionnaire given to budget officials and other government practitioners. The interviews were conducted with 53 government practitioners from the Ministry of Planning, the Directorate General of Budget within the Ministry of Finance, Members of Parliament, and seven ministries/agencies. The questionnaire was distributed to government practitioners from 79 line ministries/agencies that were not selected for interviews.

The findings here are organised into three major themes. The first section reports the findings relating to the problems with the measurement system. The second section reports findings relating to support for managing performance in all institutions involved in the implementation of performance-based budgeting while the third section focuses on findings relating to personnel and technical capacity in implementing performance-based budgeting.

### **7.2 Problems with the Measurement System**

This section reports findings relating to the quality of outcomes and outputs, the credibility of performance information, the link between performance information and

the strategic plan, different performance systems in use by practitioners, disincentives to using performance information, lack of evaluation feedback from the Directorate General of Budget, and the continuance of incremental budgeting practice.

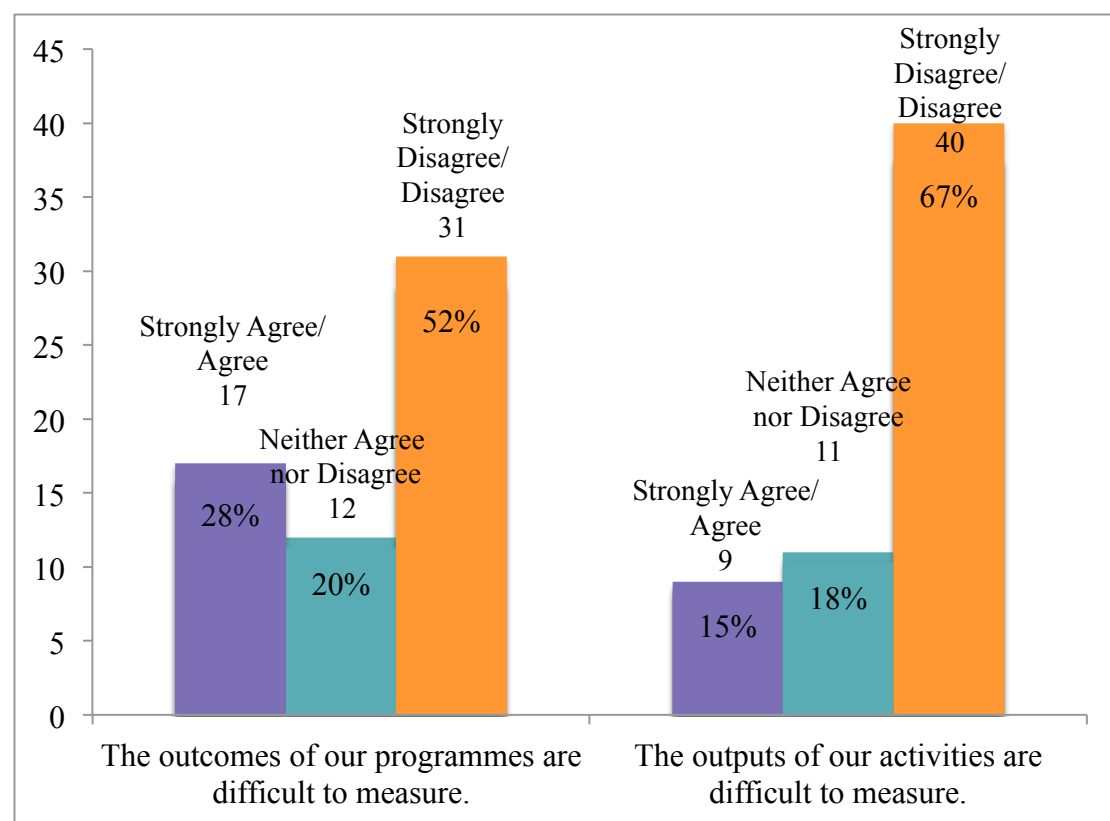
### **7.2.1 The Quality of Outcomes and Outputs**

Several interviewees from line ministries/agencies stated that there were difficulties in determining and measuring the outcomes and outputs that constitute performance measures. In Indonesian performance based budgeting, as discussed in Chapter 3, outcomes are closely associated with programmes and outputs are closely associated with activities. According to a practitioner from an agency, the use of outcomes and outputs measures is a significant achievement of the implementation of performance-based budgeting. However, a practitioner from the Government Procurement Policy Agency (LKPP) stated that they often have difficulty in determining the appropriate outputs. In the questionnaire, a practitioner from the Meteorology, Climatology and Geophysics Agency (BMKG) also argued that performance information could not be used fully in his agency because they were having difficulty with several performance indicators.

Turning to the questionnaire, the respondents from ministries/agencies were asked about their experiences in measuring the outcomes and outputs of their organisations. Of the 60 respondents, only 17 respondents (28%) strongly agreed/agreed with the statement ‘the outcomes of our programmes are difficult to measure’, while 31 (52%) strongly disagreed/disagreed with the statement. The remaining 12 respondents, (20%), neither agreed nor disagreed with the statement (see Figure 7.1).

The results were slightly different when respondents were asked whether they agreed with the statement, ‘The outputs of our activities are difficult to measure.’ Only 15% (n = 9) of the respondents agreed/strongly agreed that the outputs of their activities were difficult to measure. Two-thirds (67% or n = 40) of respondents disagreed/strongly disagreed with this statement. From the viewpoints of respondents to these two questions it can be concluded that measuring outcomes was more difficult than measuring outputs. Although the majority of respondents disagreed with the view that measuring outcomes and outputs is difficult, others still considered that measuring these two components was not an easy task.

**Figure 7.1: Difficulties in Measuring Outcomes and Outputs**



Eight government officials from the Ministry of Planning (MOP) and the Directorate General of Budget within the Ministry of Finance (DGB) expressed views regarding

the problems with the quality of performance indicators. A Head of a Sub Directorate at the Directorate of State Apparatus in the Ministry of Planning acknowledged that developing performance indicators is not as simple as he had previously imagined. The Deputy of Development Funding at the same ministry provided further explanation. He explained that it was difficult to define the right inputs, outputs, and outcomes. He argued that currently there are too many outputs in the budget documents. Another practitioner, a Head of Sub Directorate at the Directorate of Water and Irrigation in the Ministry of Planning, claimed that performance-based budgeting could not cover all performance measurement. He commented as follows:

Not all performance measurements can be included in performance-based budgeting. Sectors such as health and education probably had established instruments such as a survey, so determining performance would be relatively easy. But in the irrigation sector, the data from the Ministry of Public Works, the Ministry of Agriculture, and the Statistics Agency (BPS) are always diverse. We solved this problem with discussions with our partners in the line ministry. (Head of Sub Directorate at the Directorate of Water and Irrigation, the Ministry of Planning, Interview 46).

Similar perspectives were expressed by government practitioners in the Directorate General of Budget (DGB). For example, a Head of Section at the Directorate Budget I explained that the Directorate General of Budget has been continuing to seek the best form of performance based budgeting for Indonesia. He explained the problem he found with regard to the quality of performance indicators:

One problem that I found is how to decide appropriate indicators (outputs) for each line ministry. I found that currently there are many ‘intermediate outputs’ instead of final outputs for each line ministry. (Head of Section at the Directorate Budget I, the Directorate General, Interview 24)

His colleague from the Directorate Budget II also commented that there were too many performance indicators (outputs) that are not “the true outputs”. He suggested that it was difficult to see the real performance of line ministries. Another official, a Head of Section at the Directorate Budget II, noted that the definition of an output

was not clear because the budget documents were too detailed and rigid. As another practitioner commented:

We do not know exactly what performance information is. Do we measure the performance of line ministries or every working unit within line ministries? (Head of Section, the Directorate Budget I, the Directorate General of Budget, Interview 31)

An official from the Directorate of Budgeting System within the Directorate General of Budget explained that the implementation of performance budgeting needs time. He also argued that in the current situation, there were too many outputs and most of them might be not the intended outputs. He suggested taking the following action.

We have to develop a logical framework that explains the relationship between inputs, outputs, and outcomes. (Head of Section at the Directorate of Budgeting System, the Directorate General of Budget, Interview 49)

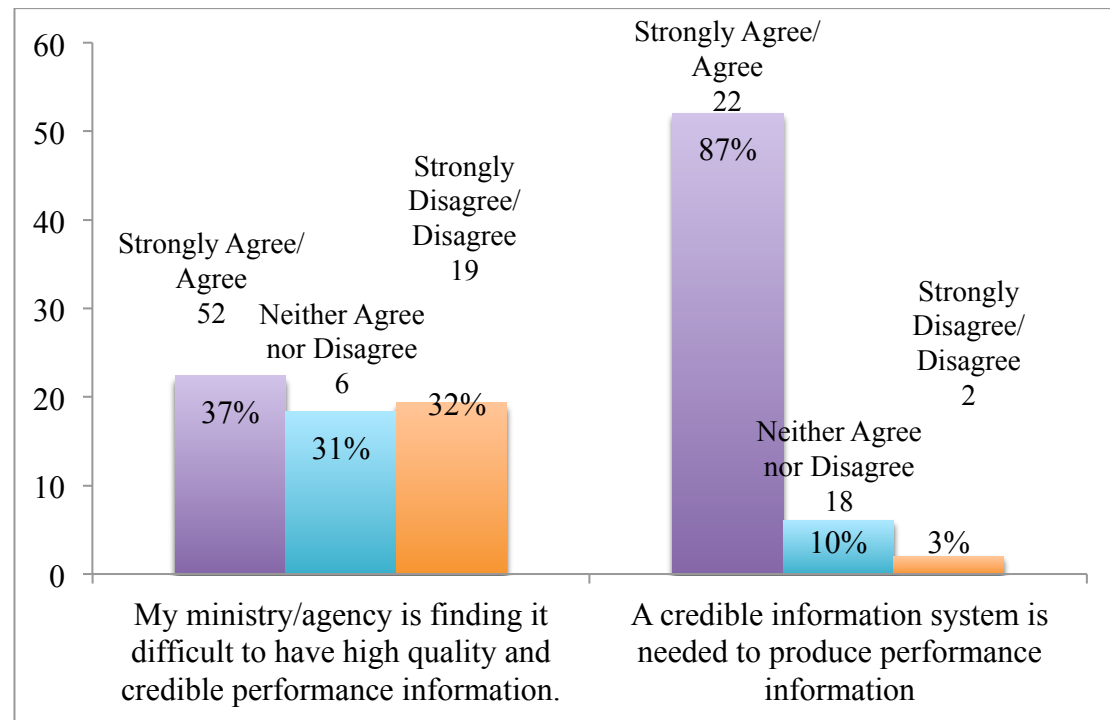
### **7.2.2 The Credibility of Performance Information**

In the questionnaire, respondents from line ministries/agencies were asked their views on the statement, 'My ministry/agency is finding it difficult to have high quality, credible performance information'. Out of 59 respondents, more than a third of respondents (37% or  $n = 22$ ) considered that their ministries/agencies were having such difficulties. However, the number of respondents who strongly disagreed/disagreed with the statement was not much different (32% or  $n = 19$ ). The remaining respondents (31% or  $n = 18$ ) neither agreed nor disagreed with it. Therefore the results were mixed (See Figure 7.2).

On the question about the necessity to have a credible information system in producing performance information, out of 60 respondents from line ministries/agencies, most respondents (87% or  $n = 52$ ) strongly agreed/agreed that a

credible information system is needed. Only 3 % (n = 2) strongly disagreed/disagreed with it. The other 10% (n = 6) neither agreed nor disagreed.

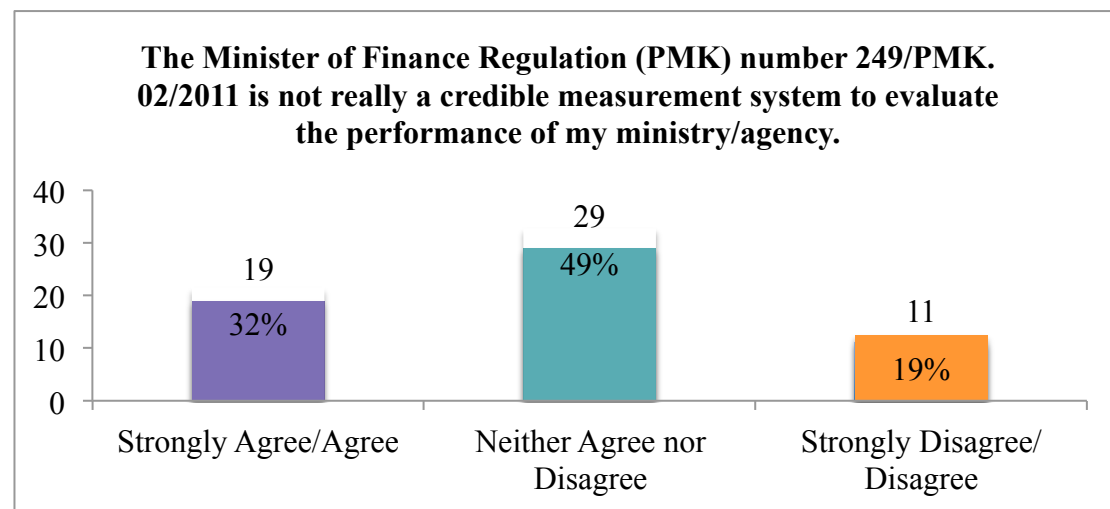
**Figure 7.2: The Credibility of Performance Information**



On the credibility of a performance measurement that is regulated by the Minister of Finance Regulation number 249/PMK.02/2011, one third of respondents (32% or n= 19) strongly agreed/agreed with the statement, ‘Ministry of Finance Regulation (PMK) number 249/PMK.02/2011 is not really a credible measurement system to evaluate the performance of my ministry/agency.’ Almost half of the respondents (49% or n= 29) neither agreed nor disagreed with the statement. Almost one fifth of respondents (19% or n= 11) strongly disagreed or disagreed (See Figure 7.3).

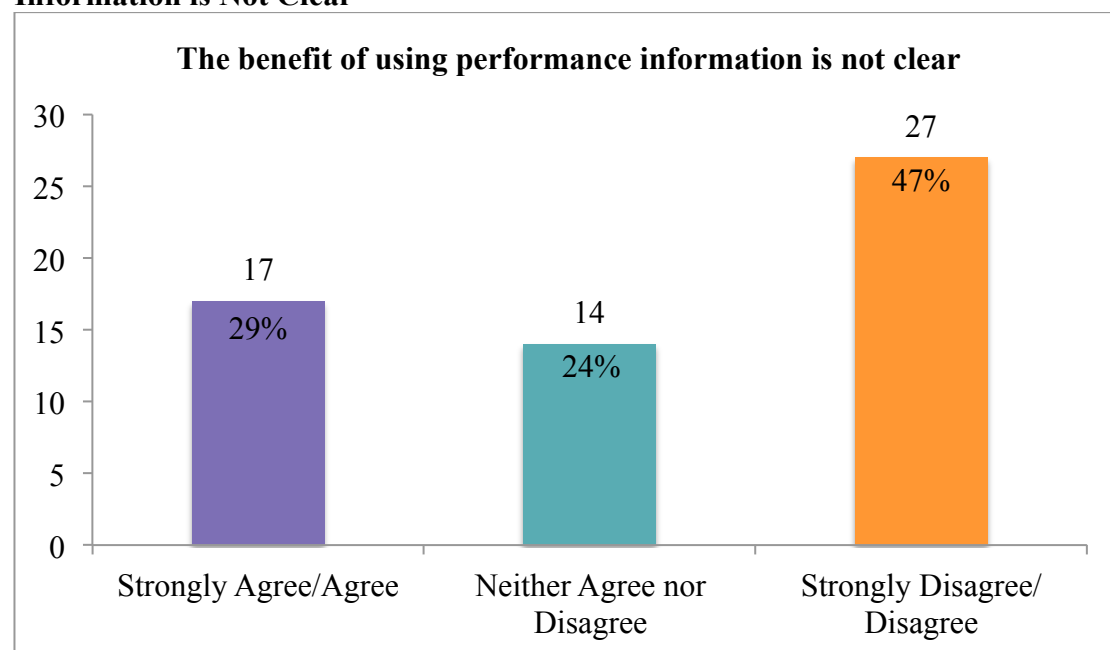


**Figure 7.3: The Credibility of the Minister of Finance Regulation (PMK) number 249/PMK.02/2011 as a Measurement System**



When the respondents were asked whether they agreed with the statement that, ‘the benefit of using performance information is not clear’, almost half of respondents (47% or n= 27) strongly disagreed/disagreed. However, almost one third of respondents (29% or n= 17) strongly agreed/agreed that the benefit of using performance information is not clear. Almost a quarter of respondents (24% or n= 14) neither agreed nor disagreed (See Figure 7.4).

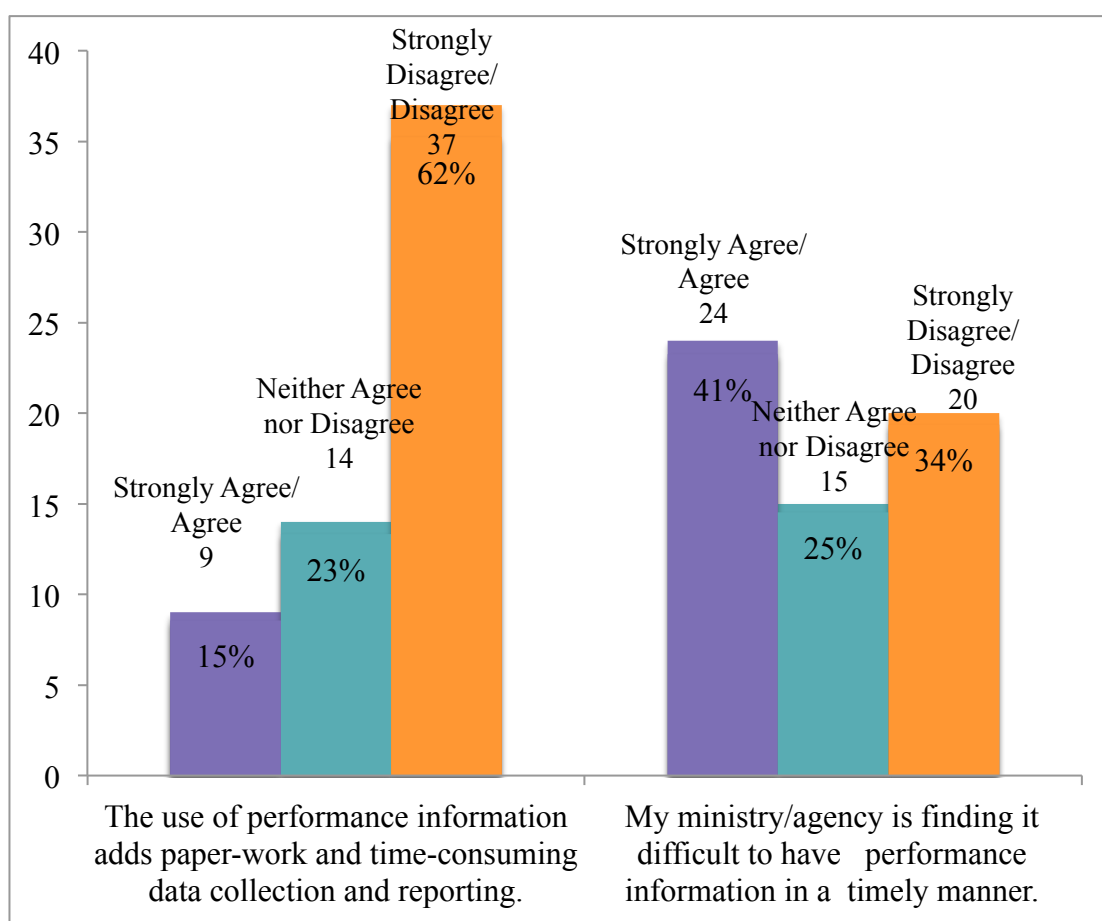
**Figure 7.4: The Agreement of the Statement ‘The Benefit of Using Performance Information is Not Clear**



The respondents were also asked about any challenges they might be experiencing in gathering performance information. On the question of whether the use of performance information added paperwork and time-consuming data collection and reporting, the majority of respondents (62% or  $n = 37$ ) strongly disagreed/disagreed with this statement. Only 15% of respondents ( $n = 9$ ) strongly agreed/agreed with it. Almost a quarter of respondents neither agreed nor disagreed with the statement. Therefore the majority of respondents did not believe that the use of performance information added paperwork and time-consuming data collection.

However, with regards to having performance information in a timely manner, approximately 40% of respondents ( $n = 24$ ) strongly agreed/agreed with the statement, 'My ministry/agency is finding it difficult to have performance information in a timely manner.' One third of respondents (34% or  $n = 20$ ) strongly disagreed/disagreed with this statement. A quarter of respondents (25% or  $n = 15$ ) neither agreed nor disagreed that they were having difficulty in having performance information in time (See Figure. 7.5).

**Figure 7.5. Challenges in Gathering Performance Information**



### 7.2.3 Connection with the Strategic Plan

Several government officials who were interviewed remarked that there was lack of connection between performance information and strategic plans. This is of importance because the absence of such a link implies that performance information or performance indicators in the budget documents might not contribute to national plans or national outcomes. A Head of Sub Directorate from the Ministry of Planning commented as follows.

We still found that the strategic plan (RENSTRA-KL) of a line ministry/agency was not aligned to the national five-year plan document (RPJMN). This was a fact....'We found that performance targets in its RENSTRA were different from its performance targets in the RPJMN'. (A Head of Sub Directorate at the Directorate of Water and Irrigation within the Ministry of Planning, Interview 46).

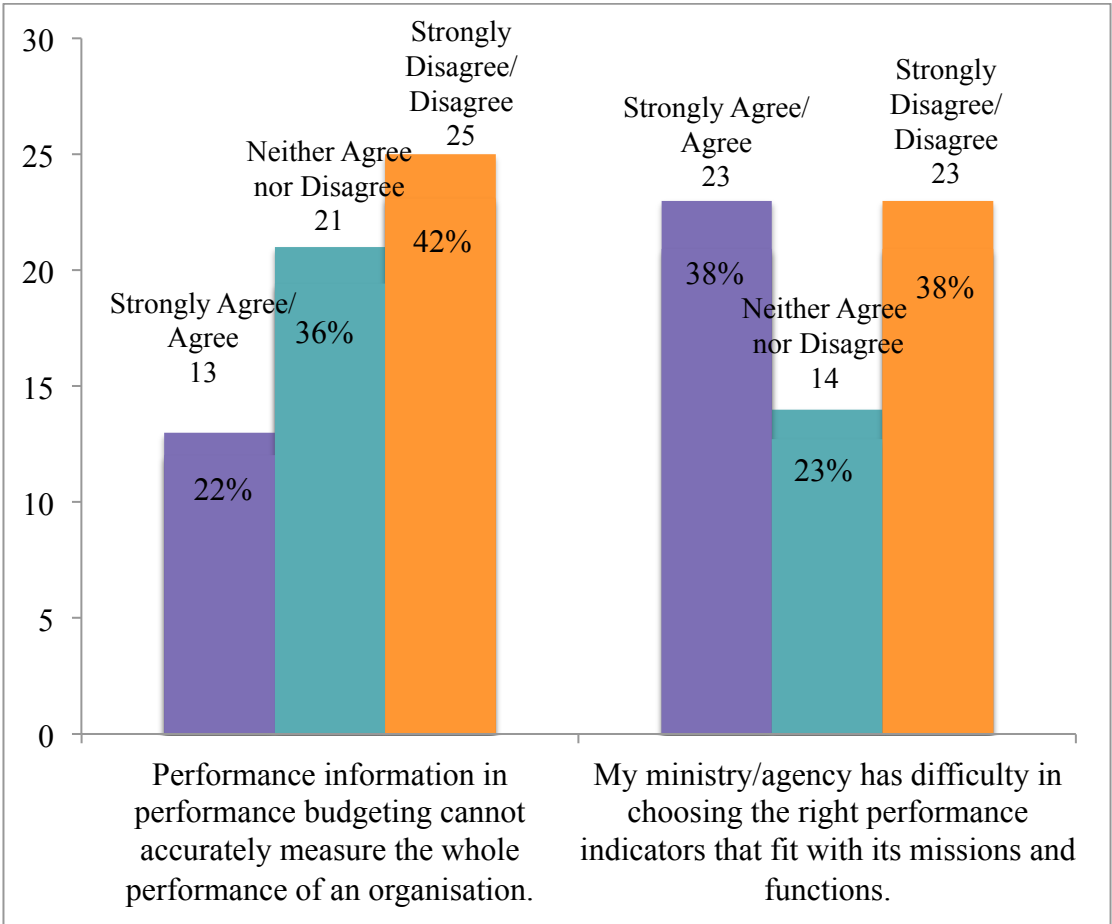
A practitioner from the Audit Board of Indonesia (BPK) acknowledged that performance indicators in his ministry probably could not be used to measure the roles of his ministry with regard to the aim of the government in improving the welfare of society. He suggested that that his office should improve its performance indicators. Two government practitioners, one from the Corruption Eradication Commission (KPK) and the other from the Ministry of Forestry, also stated that it was not clear which performance indicators (outcomes and outputs) were appropriate for different levels of government, such as outcomes of the President, Minister, or the lower units within the government institutions i.e. ministries/agencies. One of these practitioners, a Head of Division at the Planning Bureau within KPK claimed that performance measured in the budget documents (RKAKLs) was only the performance of working units at the Echelon II level such as bureaus or directorates within line ministries/agencies.

Rather different results came from the questionnaire that was distributed to line ministries/agencies. When the respondents were asked to give their views on the statement, 'Performance information in performance budgeting cannot accurately measure the whole performance of an organisation', 25 out of 59 respondents (42%) strongly disagreed/disagreed with it. Only approximately one fifth of respondents (22% or n= 13) strongly agreed/agreed with this statement. The remaining respondents (36% or n = 21) neither agreed nor disagreed (See Figure 7.6).

However, when respondents were asked to give their views on the statement, 'My ministry/agency faces difficulty in choosing the right performance indicators that fit with its missions and functions', the number of respondents who strongly agreed /agreed equalled the number of respondents who strongly disagreed/disagreed (38%

or n = 23). The remaining respondents (23% or n = 14) neither agreed nor disagreed (See also Figure 7.6). Therefore to some extent, performance information was not seen to link directly with the strategic plans of organisations.

**Figure 7.6: Performance Information and Strategic Plan**



Answering an open question in the questionnaire, a government practitioner from the Ministry of Finance also expressed the view that defining and determining key performance indicators (outcomes) and outputs had been a very difficult task. She suggested that if outcomes and outputs of line ministries/agencies had been agreed and used nationally, then restructuring the organisation of line ministries and agencies should have followed. Also from the questionnaire, a practitioner from the Indonesian

Statistics Agency (BPS) argued that the government should use performance information in an integrated system that includes the vision and mission of the President. With the integrated system, he expected that the performance results of government-wide's programmes and activities as well as line ministries/agencies' programmes and activities could be seen and monitored.

#### **7.2.4 Different Performance Measurement Systems in Use by Practitioners**

The interviews with government practitioners revealed that government practitioners use different performance measurement and evaluation systems. In their answers to the question of whether they use RKAKL performance scores based on the Minister of Finance Regulation 249/2011 (PMK No 249/2011), the responses from the Ministry of Planning officials were quite unexpected. Given the legal framework that requires its use, it is a little surprising that all ten officials of the Ministry of Planning said that they never used performance information based on that regulation for planning and budgeting. A senior official from the Office of the Deputy of the Development Funding argued that the RKAKL performance scores could not be used because the scores only cover financial information and not non-financial information. Another official from the same office claimed that the tool focuses more on budgeting matters such as budget spending, but it does not focus on what has been achieved by programmes. Interestingly, several officials at the Ministry said that they had never heard of, or read, the regulation. One official made a comment: "I might not be the only one who doesn't know about it" (Head of Sub Directorate at the Directorate of Religion, Culture, Youth, and Sport, the Ministry of Planning, Interview 43).

An official from the Office of the Deputy of Performance Evaluation in the Ministry of Planning explained that there is no regulation that requires the Ministry of Planning officials to use any particular evaluation tool. They are free to use any tools in evaluation. He pointed out that they need to reach a common understanding in evaluation. An official from the Office of the Deputy of Development Funding argued that the Ministry of Planning is trying to offer a tool to be used by both the Ministry of Planning and the Ministry of Finance. He also recognised that there are many evaluation systems in Indonesia.

Further enquiries revealed that the Ministry of Planning officials use at least four different performance report sources: the Government Regulation No. 39/2006, the Government Regulation No. 8/2006, their own tool that they have developed to produce performance information, and other performance information sources.

In contrast with the lack of knowledge expressed by the Ministry of Planning officials, it was perhaps not surprising that all interviewees from the Directorate General of Budget in the Ministry of Finance (MOF) claimed to know about RKAKL performance scores - the evaluation tool having been developed by the MOF itself. However, the use of the results of evaluation for budget formulation and the budget reviews by officials in the Directorate General of Budget are different matters. In the Directorate General of Budget, several officials from Directorate Budget I, II, and III acknowledged that they did not conduct an evaluation based on the Minister of Finance regulation number 249/2011. They felt that it was not their job to do performance evaluation. One official pointed out that this kind of evaluation was the responsibility of the Directorate Budgeting System.

We do not conduct an evaluation based on PMK 249. It is the responsibility of the Directorate Budgeting System. However starting this year it would be our duty to conduct monitoring and evaluation (Head of Section at the Directorate of Budget I, the Directorate General of Budget, Interview 25).

Furthermore, one official from the Directorate of Budget II noted that the use of RKAKL performance scores was not ideal because the information in it does not cover all the aspects of evaluation mandated by the Minister of Finance Regulation 249/2011.

We could not use the results of evaluation because there was no logical framework that describes the relationship between inputs, outputs, and outcomes of programmes. Line ministries didn't develop it. This evaluation is merely a regulation. Currently, the performance scores haven't covered the scores of outcomes' achievement. (Head of Section at the Directorate of Budget II, the Directorate General of Budget, Interview 26)

One official from the Directorate of Budgeting System in the Directorate General of Budget explained that there is no mechanism to guarantee that the results of evaluation are used in the budgetary process. The Ministry of Finance have not developed a procedure that ensures officials in the Directorate General of Budget to give feedback of evaluation results to line ministries.

Government practitioners from line ministries/agencies also commented on the variety of performance systems used by officials from the Ministry of Planning and the Directorate General of Budget as well as the Ministry of Administrative and Bureaucratic Reform. At least seven practitioners commented that there were too many institutions monitoring the performance of ministries/agencies using different systems/tools. One practitioner commented as follows.

There was no good coordination between the Ministry of Planning, the Ministry of Finance, and the Ministry of Administrative and Bureaucratic Reform. The [performance] reports that were requested by them often overlapped. (Head of Section, the Audit Board of Indonesia (BPK), Interview 03)



Regarding this situation, an official from the Ministry of Administrative and Bureaucratic Reform commented as follows.

We have been trying to reach a perception regarding performance reports from the Ministry of Planning, the Ministry of Finance, and our ministry. We have finalised the draft of regulation concerning the performance report (Head of Division, the Ministry of Administrative and Bureaucratic Reform, Interview 51)

An official from the Office of the Deputy of Development Funding in the Ministry of Planning also explained that the Ministry of Planning were trying to offer a tool to be used by both the Ministry of Planning and the Ministry of Finance.

We are trying to offer them a tool that we call PAKEM (Self Analysis and Assessment of Policies). We are trying to communicate with the Ministry of Finance regarding PAKEM and RKAKL performance scores. We have no problem with the name because both have the same functions. I hope that this can be used in the next RPJMN. I don't know. It depends on the top management. If they say no, it means we cannot use it (PAKEM). (Head of Sub Directorate at the Office of the Development Funding, the Ministry of Planning, Interview 52)

Regarding the use of performance evaluation based on the Minister of Finance regulation No. 249/200 (PMK 249/2011) in line ministries/agencies, the interviews showed that there were two practitioners from line ministries that clearly stated that they did not use the Minister of Finance regulation No. 249/200 (PMK 249/2011) for measuring performance within their offices. Instead of using PMK 249/2011, one practitioner stated that his ministry used the Government Regulation No. 39/2006 for measuring and evaluating its performance.

We do not use PMK 249 to evaluate performance within our ministry. We use PP 39/2006. (Head of Planning and Performance Management Bureau, the Ministry of Administrative and Bureaucratic Reform, Interview 16)

Another practitioner from a line ministry stated that his ministry used a combination of performance budgeting with PMK 249/2011 and its own performance management system. Another practitioner from the Ministry of Finance used the balanced

scorecard to measure its performance. She argued that PMK 249/2011 was not an appropriate tool. Another practitioner from the Audit Board of Indonesia commented on the variation of the tools used by different institutions for monitoring and evaluation.

The regulations on monitoring and evaluation, which were done by the Ministry of Planning, the Ministry of Finance, TEPPA Team, as well as the Ministry of State Apparatus and Bureaucratic Reform, are varied. In fact if we looked at the substance of all the reports, they are all the same. This situation is problematic for us. (Head of Section, the Audit Board of Indonesia, Interview 03)

However, until recently there has been no consensus reached between three ministries (the Ministry of Planning, the Ministry of Finance, and the Ministry of Administrative and Bureaucratic Reform with regard to simplifying performance monitoring and evaluation.

#### **7.2.5 Disincentives to Using Performance Information**

The presence of laws and regulations that relate to the implementation of performance-based budgeting is one of the factors that provide incentives or disincentives to the use of performance information. According to an official from the Directorate of Budget II within the Directorate General of Budget, the government is committed to implementing performance-based budgeting and has issued regulations supporting its implementation although commitment is not universal.

In practice, we need to compromise because not everyone is ready for this (Head of Section at the Directorate Budget II within the Directorate General of Budget, Interview 27).

Hence, not all requirements cited in the laws and regulations can be implemented easily. One of the government practitioners from the Ministry of Administrative and Bureaucratic Reform also stated that a law related to performance-based budgeting implementation, among other things, was already in place. The law is the State

Finance Law 17/2003. However he noted that the Minister of Finance regulations and the Directorate General of Budget regulations were too rigid. It affected the implementation of performance-based budgeting. Here is his comment.

If we see the Law 17/2003, it is good. However in performance budgeting implementation, if we talk about the Minister of Finance regulations, or even the Director General of Budget regulations, all were too rigid. We were back to line item budgeting. (Head of Planning and Performance Management Bureau, the Ministry of Administrative and Bureaucratic Reform, Interview 16)

Another practitioner from the Ministry of Education and Culture also expressed a similar perspective.

The concept was good, but there is no regulation on how to use performance in determining budgets. In practice, it is back to line item budgeting as determined by the Directorate General of Budget. (Head of Planning Bureau, the Ministry of Education and Culture, Interview 04)

From the views of line ministries, the regulations issued by the Directorate General of Budget provide disincentives to the implementation of performance-based budgeting. They suggested that the budgeting process is similar to line item budgeting. A Head of Division from the Government Procurement Policy Agency (LKPP) suggested that the Minister of Finance regulation 249/2011 had not supported the implementation of performance-based budgeting.

The Minister of Finance Regulation number 249 needs to be strengthened, because the atmosphere [of performance measurement] turned out to be still about budget spending. That was not performance budgeting. If the performance targets had been achieved but with less spending, that would mean we have achieved efficiency and effectiveness. (Head of Division, the Government Procurement Policy Agency (LKPP), Interview 13)

Another disincentive is that the performance measurement and evaluation based on the Minister of Finance Regulation (PMK) 249/2011 has not been used for determining the budget. Several practitioners from line ministries confirmed this situation. According to a Head of Division from the Ministry of Forestry, the current reward and punishment mechanisms did not use performance reports based on PMK

249/2011. Another practitioner from the Ministry of Administrative and Bureaucratic Reform urged that the government should change its policy.

I believe we will use performance information in allocating budgets, on one condition; we should change our policy by using performance information in budget decisions (Head of Planning and Performance Management Bureau, the Ministry of Administrative and Bureaucratic Reform, Interview 16).

A Head of Division from the Ministry of Education and Culture mentioned the dilemma encountered by his ministry with regard to priority programmes. The budget for these priority programmes might not be cut even though their performance might be poor.

There was a dilemma with priority programmes. Although their (output) achievements were low/poor, whatever their performance was, they always have been given a budget. (Head of Division at the Planning Bureau, the Ministry of Education and Culture, Interview 05)

Another disincentive that is perceived to some extent hindering the implementation of performance-based budgeting is the existence of a legal requirement to provide a fixed portion of national budget for certain sectors. This is particularly the case with the education sector.

It was difficult to implement performance-based budgeting within our ministry (the Ministry of Education) because the education budget, unlike other budgets, has been locked at 20% of the state budget. (Head of Division at the Planning Bureau, the Ministry of Education and Culture, Interview 05)

#### **7.2.6 Lack of Evaluation Feedback from the Directorate General of Budget**

As discussed earlier, according to the Minister of Finance Regulation 249/2011 all line ministries/agencies must submit the performance measurement and evaluation report to the Directorate General of Budget and the Ministry of Planning. We asked practitioners from line ministries/agencies whether the Directorate General of Budget had given feedback on these reports to every line ministry/agency.

Eleven practitioners from the Audit Board of Indonesia (BPK), the Ministry of Forestry, the Government Procurement Policy Agency, the Ministry of Administrative and Bureaucratic Reform, the Corruption Eradication Commission (KPK), the Ministry of Education and Culture, and the Ministry of Public Work confirmed that the Directorate General of Budget never gave them feedback of these performance measurement and evaluation reports. The following are comments from two practitioners.

The Ministry of Finance [the Directorate General of Budget] tried to evaluate performance of ministries by using the regulation 249/2011, but up until now there is no feedback from the evaluation. In addition, the Ministry of Planning has a different evaluation mechanism (Head of Sub Directorate, the Audit Board of Indonesia (BPK), Interview 01)

The regulation has been implemented. We report our performance based on that regulation, and we always get bad scores. There was no particular feedback from the Ministry of Finance. We were invited to a meeting to discuss the results but they also invited other ministries. So the feedback was only in general for all ministries invited (Head of Planning and Performance Management, the Ministry of Administrative and Bureaucratic Reform, Interview 16)

As he did not receive feedback from the Directorate General of Budget (DGB), one practitioner from the Ministry of Education and Culture was not sure whether the DGB had received it. He also did not know if there were mistakes with the reports submitted. A practitioner from the Directorate of Budgeting System within the DGB stated that it was true that the Minister of Finance regulation 249/2011 had not been implemented with regard to the use of the performance evaluation in formal budget cycles. He also acknowledged that there was no formal feedback regarding the results of performance evaluation to line ministries. There was no system to do that.

### **7.2.7 The Practice of Incremental Budgeting**

An important finding of the research is that the implementation of performance based budgeting in Indonesia, in practice, is still affected by the existence of traditional budgeting. One interviewee from the Ministry of Administrative and Bureaucratic Reform stated that the concept of performance-based budgeting in Indonesia is good but there is no regulation explicitly stating that budgets should be determined by performance. He made a further comment:

One component of performance-based budgeting is, “let the managers manage”, but in reality it is back to “line item budget,” which is controlled by the Directorate General of Budget. (Head of Planning and Performance Management Bureau, the Ministry of Administrative and Bureaucratic Reform, Interview 16)

He continued by stating that, in practice, Indonesia implements performance-based budgeting just like the implementation of line item budgeting supplemented by performance indicators. Another example of how traditional budgeting still operated in practice was remarked on by two practitioners, one from the Ministry of Public Works and the other from the Ministry of Administrative and Bureaucratic Reform. They stated that in Indonesian budgeting, there was not enough room for flexibility in the budget execution stage. They suggested that line ministries/agencies should be given more flexibility on how to use their budget. They added that the Ministry of Finance (i.e. the Directorate General of Budget) should focus on how well a ministry was achieving its performance targets rather than be too rigid in examining how it spent the money.

In connection with the evaluation conducted by the government (i.e. the Ministry of Planning and the Ministry of Finance) in determining budget allocation, six practitioners from the Ministry of Education and Culture, the Government

Procurement Policy Agency (LKPP), the Ministry of Forestry, the Audit Board of Indonesia (BPK), the Ministry of Administrative and Bureaucratic Reform, and the National Standardization Agency (BSN) indicated that the government was still more focused on the percentage of budget spending rather than on the achievement of performance targets. Two interviewees made the following statements.

The Directorate General of Budget and the Ministry of Planning have not used performance targets as well as performance evaluation results in determining budget allocations (Head of Planning Bureau, the Ministry of Forestry, Interview 41)

We do not really implement performance-based budgeting, so performance information is overlooked. We only look at the previous year's budget spending for measuring performance (Head of Planning and Performance Management Bureau, the Ministry of Administrative and Bureaucratic Reform, Interview 16).

In discussing budgeting, interviewees commented that rather than performance scores and performance targets, previous years' budgets were considered by the Ministry of Finance and the Ministry of Planning in determining budget. Two practitioners from the Audit Board of Indonesia commented on this. One interviewee from the Government Procurement Policy Agency (LKPP) commented.

[RKAKL] Performance scores [based on the Minister of Finance Regulation 249/2011] have not been an important element in PBB because if our budgeting is based on performance, the performance evaluation should affect the following year's budget process. However, up until now, I cannot see there is a relationship between performance score and budget (Head of Division, the Government Procurement Policy Agency (LKPP), Interview 13).

Commenting on the open question in the questionnaire, one respondent from the State Administration Agency (LAN) argued that budget allocation was still determined by quota. The larger ministries/agencies would always get a larger budget, and smaller ministries/agencies would always get a smaller budget. The respondent also commented that as long as performance-based budgeting could not be implemented consistently, the use of performance information would be sub-optimal. The

respondent also stated that political domination in the budget decision affects the use of performance information.

Despite their criticisms of the predominance of traditional budgeting in practice, two interviewees from the Audit Board of Indonesia and the Ministry of Administrative and Bureaucratic Reform stated that the implementation of performance based budgeting in Indonesia has steadily improved. One interviewee from the Audit Board of Indonesian commented.

Performance information was definitely considered by the Directorate General of Budget and the Ministry of Planning for allocating budgets, but I think it was only a small portion, they very much used the previous year's budget allocations (Head of Section, the Audit Board of Indonesia (BPK), Interview 03)

### **7.3 Support For Managing Performance**

Here findings relating to leadership and management support, changing behaviour, lack of commitment from line ministries/agencies, and lack of coordination between the Ministry of Planning and the Directorate General of Budget are set out of and discussed.

#### **7.3.1 Leadership and Management Support**

##### Support from Top Management

The interviews with government officials from the Directorate General of Budget and the Ministry of Planning demonstrated a certain amount of support from their leaders in implementing performance-based budgeting. A Head of Section from the Directorate of Budget II within the Directorate General of Budget argued that the



support from the top management could be seen with the issuing of regulations relating to performance-based budgeting.

Support from the top management is reflected by the issuance of regulations that support the implementation of performance budgeting. However, in practice, we need to compromise because not everyone is ready for this. (A Head of Section from the Directorate of Budget II within Directorate General of Budget, Interview 27)

Another practitioner from the Directorate of Budgeting System at the same office argued that the support from the Minister of Finance (at the time the interview was conducted) was insufficient.

We haven't got strong support to implement performance-based budgeting. We need support from our Minister because performance-based budgeting is not mechanical, it is culture. (Head of Section at the Directorate Budgeting System, the Directorate General of Budget, Interview 34)

In the Ministry of Planning (MOP), two practitioners stated that the support from their leaders was only a formality and never actually required them to use performance information in the planning and budgeting process. One Head of Sub Directorate agreed. Another practitioner made the following comment.

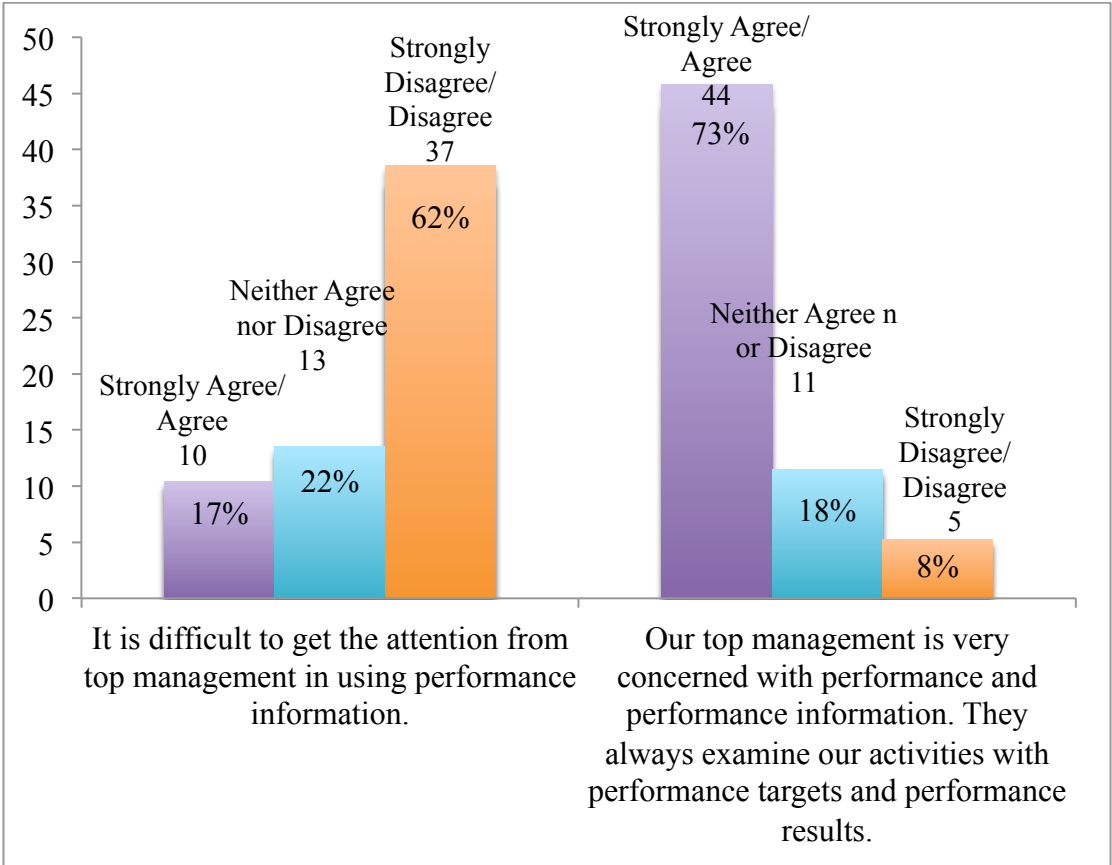
I never heard that our top management instructed us to use performance information as a basis for budgeting decisions. (Head of Sub Directorate, the Ministry of Planning, Interview 20)

However, another Head of Sub Directorate from the Ministry of Planning had a different perspective. He stated that the top management within the Ministry of Planning had supported the use of performance information.

The top management had supported the use of information. However this support should be supported by a developed system. The development of an evaluation system based on PP 39 [the Government Regulation No. 39/2006] has recently been introduced (Head of Sub Directorate, the Ministry of Planning, Interview 19).

Turning to the views of practitioners from line ministries/agencies, Figure 7.7 presents the views from respondents to the questionnaire with regard to the attention of top management within line ministries to performance information.

**Figure 7.7: Engaging the Attention of Top Management to Performance Information**



Out of 60 respondents, 62% of respondents (n= 37) strongly disagreed/disagreed with the statement ‘It is difficult to get the attention from top management in using performance information’. Only 17% of respondents (n= 10) strongly agreed/agreed with this statement. The rest of the respondents (22% or n = 13) neither agreed nor disagreed. From this finding, it can be seen that the majority of line ministries/agencies found little difficulty in getting attention from their top management with regard to using performance information.

Figure 7.7 also provides evidence from the questionnaire about the concern of top management within line ministries/agencies with performance and performance information. When the respondents were asked to give their views on the statement, 'our top management is very concerned with performance and performance information', They always examine our activities with performance targets and performance results', almost three quarters of respondents (n= 44) strongly agreed/agreed with that statement. Only 8% of respondents (n= 5) strongly disagreed/disagreed and almost one fifth of respondents (n= 11) neither agreed nor disagreed with it. From findings presented in Figure 7.7 it was found that the majority of respondents believed that the top management in their ministries/agencies had paid enough attention on performance and in using performance information.

Turning to the findings from the interviews with government officials from line ministries/agencies and the answers from an open question of the questionnaire, there were mixed results regarding the support for performance from the leader or top management within line ministries/agencies.

Ten government practitioners from various line ministries/agencies stated that their leaders supported, or were concerned about performance within their organisations. The support from their leaders could be expressed in many and different ways. One official from the Ministry of Agriculture gave an example about the support from his leader. The leader within his ministry gave his support by issuing a regulation regarding the guidelines for performance measurement 2010-2014.

Another interviewee from the Corruption Eradication Commission (KPK) provided another example of attention from his leaders. He stated that the leaders supported an initiative to implement the balanced scorecard as a tool or a system for evaluating performance within their organisation. The Ministry of Planning or the Ministry of Finance did not require the use of the balanced scorecard. This was an initiative of the agency itself. This showed that the leader of this organisation has a desire to measure the performance. Another government official from the Government Procurement Policy Agency (LKPP) explained how the head of his agency monitored its performance.

Our head of agency is very concerned with performance. We always have informal discussions about our performance. Every division is very aware of its performance. We are a small agency so that it might be the case that we can talk freely and more intensively about our performance (Head of Planning Bureau, the Government Procurement Policy Agency (LKPP), Interview 12).

A government official from the same agency (LKPP) argued that support for performance was demonstrated by the use of performance information as an initial basis for making decisions. A Head of Sub Division from the Ministry of Public Work argued that the support from his leaders was already in the right direction.

Support from our leaders is already in the right direction. Our minister and secretary general have frequently talked about outcomes. (Head of Sub Division, the Ministry of Public Work, Interview 44)

Another interviewee from the Ministry of Forestry gave another perspective regarding the support from his leader.

Support from our leaders within our ministry was very good. They were willing to spend their time, although not in detailed communication. (Head of Division, the Ministry of Forestry, Interview 35)

However, not every leader within a ministry shows the same support or awareness for performance. One practitioner from the Ministry of Education and Culture gave his views.

My secretary general and my minister are very committed to improving performance. Reform starts from the top. But among other Directorate Generals, there are those who still have an old paradigm, 'I don't care. The most important thing is that I am secure with my salary, allowances. I am more happy. That's it.' Other Director Generals have more adrenaline to pursue good performance; usually they come from the new generation (Head of Planning Bureau, the Ministry of Education and Culture, Interview 04).

Other government practitioners also gave their views regarding the lack of awareness and commitment of their executive leaders to use performance information and lack of their support for improving performance. From an open question of the questionnaire, a government practitioner from the National Nuclear Energy Agency (BATAN) wrote that there was lack of awareness and commitment from top management to pay attention to performance indicators that must be achieved. Another official from the Audit Board of Indonesia (BPK) gave her perspective.

Our leaders have less commitment to using performance information; sometimes they don't really care about that. (Head of Sub Directorate, the Audit Board of Indonesia (BPK), Interview 08)

Another government practitioner from BATAN reported on the questionnaire that although this agency had developed an information system that incorporated performance information, the use of this system by the leaders was limited. He stated that this lack of awareness and commitment from leaders affects the efficiency and effectiveness of the system. From the questionnaire, another respondent from the Ministry of Foreign Affairs argued very strongly that the understanding and awareness of the Minister on performance management is almost zero.

#### Support From Management

There were eight practitioners from the Directorate General of Budget (DGB) who viewed that to some extent there was lack of support from its management to implement performance-based budgeting. Three practitioners gave specific examples of how their analysis in determining a budget was little used by the upper

management. A Head of Section at Directorate of Budget I stated that in determining the indicative budget ceilings, his voice was hardly heard. He only made some kind of matrices and estimations and then gave his inputs to upper management. Two other practitioners made similar comments.

Our top management usually does not use our analysis when deciding budget allocation. (Head of Section from the Directorate of Budget II, the Directorate General of Budget, Interview 28)

Information that we give to the upper management was not used as a basis for making budgeting decisions. (Head of Section from the Directorate of Budget I, the Directorate General of Budget, Interview 25)

Another practitioner from the Directorate of Budgeting Systems commented strongly on the lack of support from management in connection with the use of the Minister of Finance Regulation 249/2011.

We did not use the Minister of Finance Regulation 249/2011 because firstly, there is no willingness and secondly, there is no incentive to use it. (Head of Section from the Directorate of Budgeting System, the Directorate General of Budget, Interview 34)

Two practitioners from the Directorate of Budget I gave another example about the lack of support from management, noting that budgeting policy is always changing so that it is not easy for them to carry out their tasks. One of them said that although his office (the Directorate General of Budget) has made positive improvements with regard to the budgeting process and procedures, the procedures have been changed every year. As a result, budget practitioners have to learn quickly.

One practitioner from the Directorate of Budget I particularly emphasised a lack of support from management.

We do not have enough support from our management. For example, this year when we conducted the baseline review, I proposed to invite spending ministries [to come to his office], but the facilities were not given (Head of Section from the Directorate of Budget I, the Directorate General of Budget, Interview 31).

With regards to support from management within line ministries/agencies, the Deputy of Development Funding at the Ministry of Planning observed that there was a lack of awareness from the top management of line ministries/agencies with regard to the importance of performance information. He noted that the budgeting process was still considered as only an administrative process that should be conducted by lower level staff. Upper level management did not really pay attention or did not particularly involve themselves with the process. One interviewee from the Ministry of Forestry agreed that support from top management is a very important factor in implementing performance information. He suggested that performance information should also be used as one important factor in considering promotion of staff to higher positions. A practitioner from the Ministry of Education and Culture agreed with the observation from the Deputy of Development Funding. Here is his comment.

Several top echelons like director generals and head of bureaus/directorates at my ministry do not completely understand the process to develop the Annual Work and Budget Plan [RKAKL]. Their staffs at Programme and Evaluation Division have more understanding about the process (Head of Division from the Ministry of Education and Culture, Interview 05).

He and his colleague said that their superiors have a strong commitment to implementing performance-based budgeting. However the commitment from other top echelons within their ministry was varied. A Head of Sub Division at the Audit Board of Indonesia (BPK) also mentioned the lack of support from management. He stated that he needed support from his superior to implement performance-based budgeting in their institution fully.

It is difficult [to implement performance based budgeting] if my superior still uses the budget trend [in determining budget within their agency] but does not use performance targets (Head of Division from the Finance Bureau, the Audit Board of Indonesia (BPK), Interview 02).

Another practitioner from BPK also noted that her leaders had less commitment in using performance information. Sometimes they did not really care about it. From the questionnaire, one respondent from the Indonesian Statistics Agency (BPS) argued that the involvement of top managers in managing and using performance information must be improved.

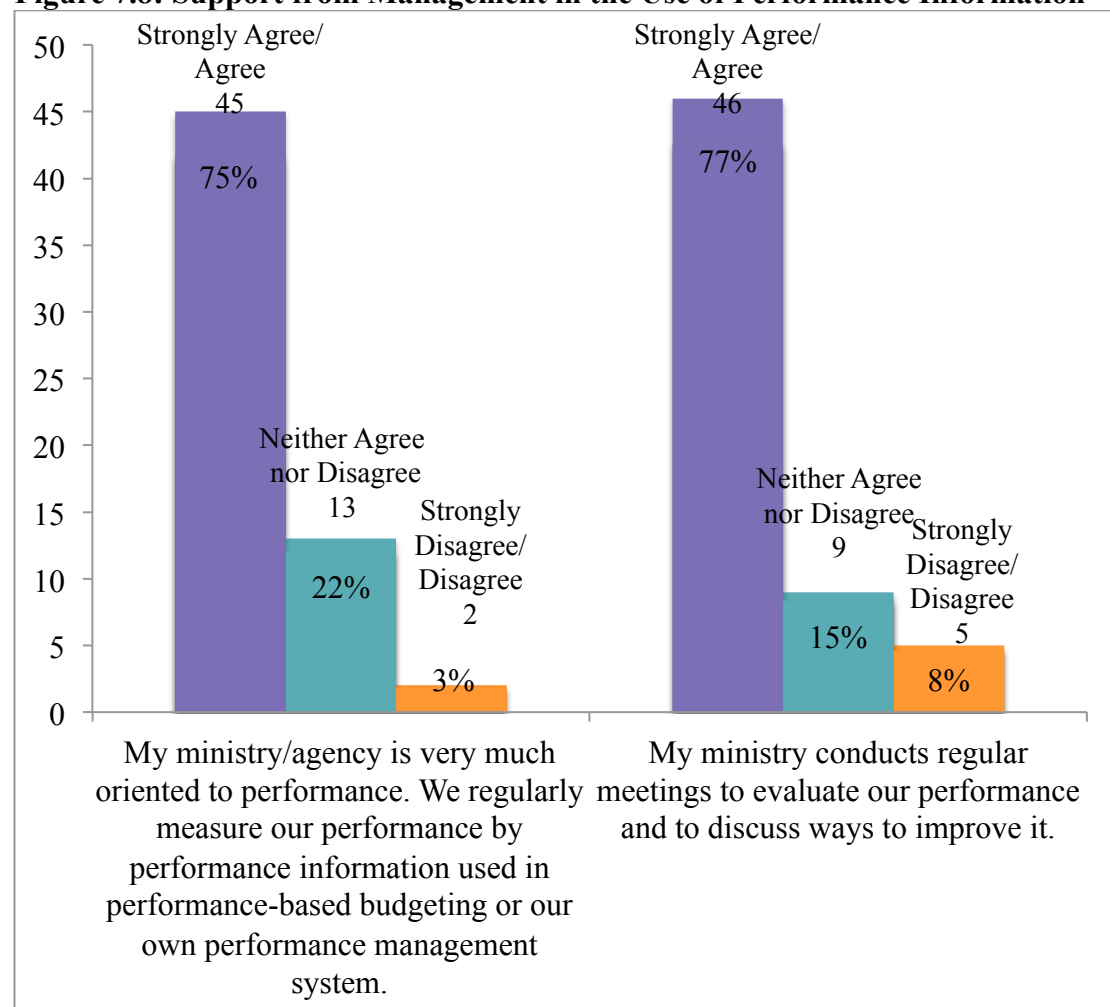
It is worth noting that support from management in ministries/agencies regarding the implementation of performance-based budgeting and the use of performance information is still promising. Two interviewees and two respondents gave the positive aspects in connection with the support from management. A practitioner from the Ministry of Public Works was confident that support from the leaders was already in the right direction. His minister and secretary general have frequently talked about outcomes that should be and have been achieved by their ministry. Another interviewee from the same ministry gave another example of support from management. Within the Ministry of Public Works, they have implemented, 'e-performance', which has been developed based on the Ministry of Finance Regulation 249/2011. A respondent from the Ministry of Finance wrote in the questionnaire that the top echelons at the Ministry of Finance use a quarterly reporting mechanism and the report was discussed at all levels from lower level management to minister. Another respondent from the Ministry of Industry wrote that there were bi-annual meetings within the Ministry of Industry to evaluate the performance of working units.

Turning to the results from the questionnaire, support from management regarding the use of performance information within ministries/agencies was positive. This is rather different from the interview results. Commenting on the statement, 'my



ministry/agency is very much oriented to performance. We regularly measure our performance with performance information used in performance budgeting or our own performance management system', three quarters of respondents (n= 45) strongly agreed/agreed with this statement. Only 3% of respondents (n= 2) strongly disagreed/disagreed with it. However, one-fifth of the respondents (n= 13) neither agreed nor disagreed with this statement (See Figure 7.8). The percentage of respondents who strongly agreed/agreed is slightly higher when they were asked to give their views on the statement 'my ministry conducts regular meetings to evaluate our performance and to discuss ways to improve performance' (77% or n = 46). Five respondents (8%) strongly disagreed/disagreed with the statement and the remaining respondents (15% or n = 9) neither agreed nor disagreed.

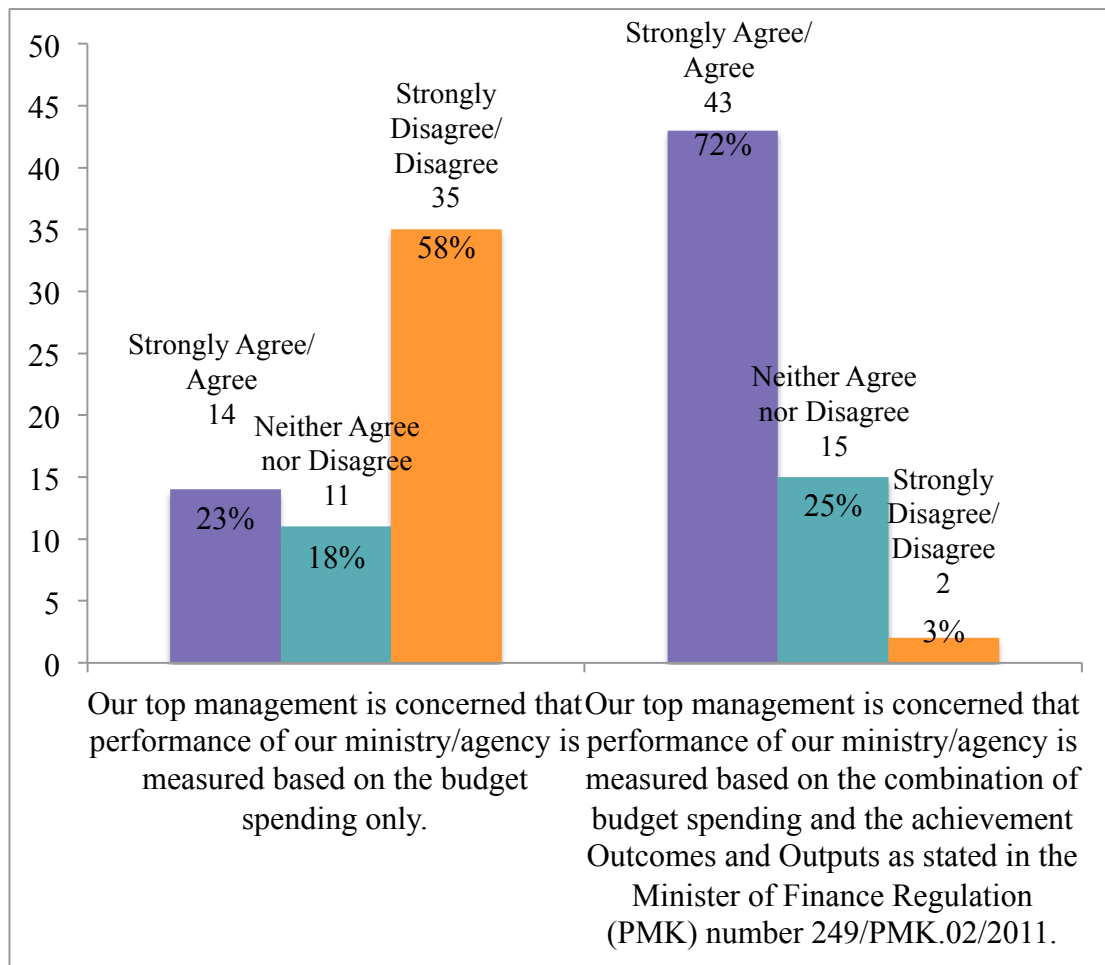
**Figure 7.8: Support from Management in the Use of Performance Information**



### 7.3.2 Changing Behaviour

The changing behaviour of government practitioners, from top-level management to the staff, plays an important role in the implementation of performance-based budgeting. From the questionnaire, one of the questions asked respondents whether they agreed with the statement, 'our top management is concerned that the performance of our ministry/agency is measured based on the budget spending only.' Out of 60 respondents, 35 respondents (58%) strongly disagreed/disagreed with that statement. Just above one fifth of respondents (23% or  $n = 14$ ) strongly agreed/agreed with it. The remaining 11 respondents (18%) neither agreed nor disagreed (see Figure 7.9). These results were supplemented by answers to another question in the questionnaire that asked their views on the statement, 'Our top management is concerned that performance of our ministry/agency is measured based on the combination of budget spending and the achievement of Outcomes and Outputs as stated in Ministry of Finance Regulation (PMK) number 249/PMK.02/2011.' Almost three quarters of respondents (72% or  $n = 43$ ) strongly agreed/agreed with this statement. Only two respondents strongly disagreed/disagreed. Another a quarter of respondents ( $n = 15$ ) neither agreed nor disagreed. From these results it can be inferred that the majority of top management within ministries/agencies has a positive orientation to performance. They were not only concerned with budget spending when talking about performance but also performance measures of achievement of outcomes and outputs.

**Figure 7.9 Top Management Understanding of Performance Measurement**

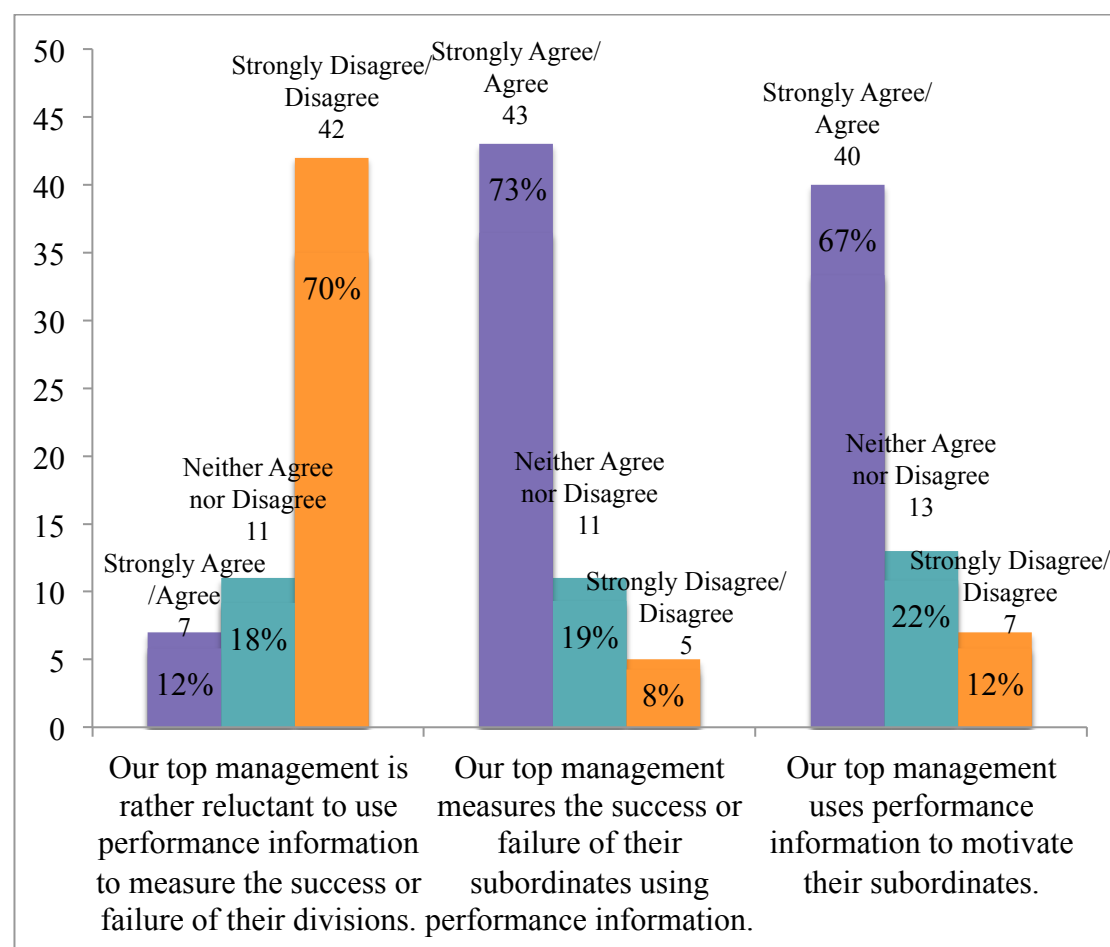


Respondents were also asked in the questionnaire for their views on two statements relating to the use of performance information by top management to measure the success or the failure of their offices (see Figure 7.10). Responding to the statement, ‘Our top management is rather reluctant to use performance information to measure the success or failure of their divisions’, 42 out of 60 respondents (70%) strongly disagreed/disagreed. Only seven respondents (12%) strongly agreed/agreed with this statement. The remaining 11 respondents (18%) neither agreed nor disagreed. Their responses to this statement were consistent with their comments on the following statement, ‘Our top management measures the success or failure of their subordinates

using performance information’. Almost a quarter of respondents (73% or 43) strongly agreed/agreed. Only five respondents (8%) strongly disagreed/disagreed and the remaining eleven respondents (19%) neither agreed nor disagreed.

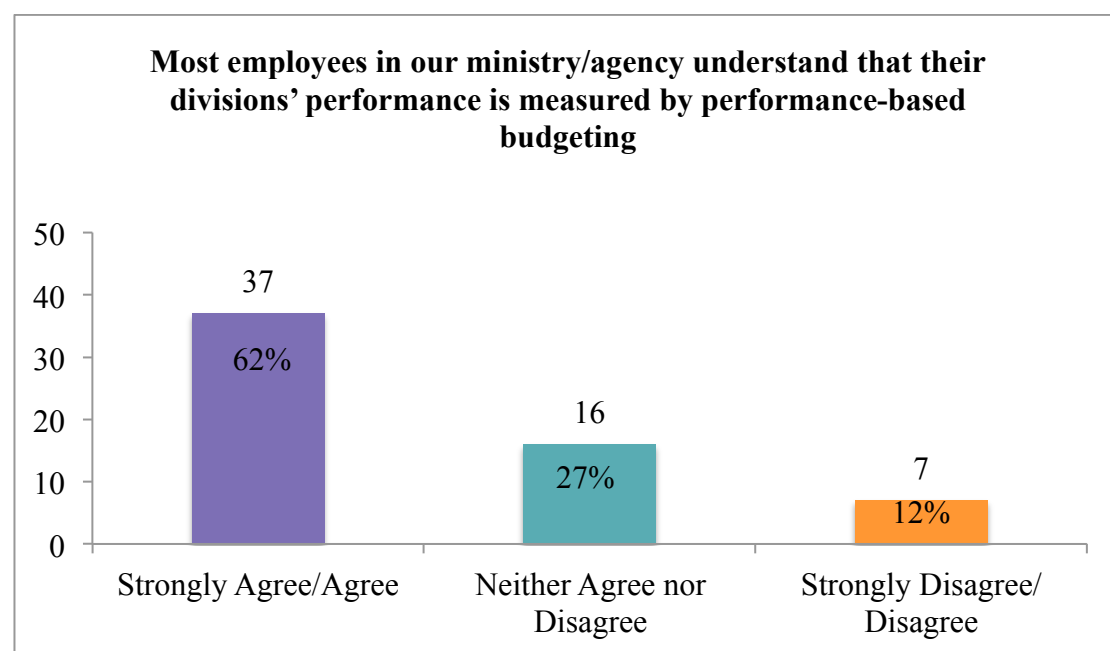
In connection with the statement, ‘Our top management uses performance information to motivate their subordinates’, two thirds of respondents (40) also strongly agreed/agreed with the statement. Only 12% or seven respondents strongly disagreed/disagreed with it. Thirteen respondents (22%) neither agreed nor disagreed with it (see Figure 7.10).

**Figure 7.10 The Use of Performance Information by Top Management**



Turning to the statement in the questionnaire relating to understanding of employees within line ministries/agencies of the use of performance-based budgeting for measuring performance of their offices, the respondents were asked to give their views on the statement, ‘Most employees in our ministry/agency understand that their divisions’ performance is measured by performance budgeting.’ Out of 60 respondents, 37 respondents (62%) strongly agreed/agreed with that statement. Only seven respondents (12%) strongly disagreed/disagreed and the remaining sixteen respondents (27%) neither agreed nor disagreed.

**Figure 7.11: The Understanding of Employees of Performance-Based Budgeting**



Despite the positive results from the questionnaire, this research also received somewhat different viewpoints from the interviewees and respondents from the questionnaire who responded to the open question. Two practitioners from the Directorate of Budget II and III within the Directorate General of Budget stated that one problem they were facing is how to change the mind-set of ministries to focus not

only on the budget they get, but also to focus on developing appropriate output measures. They said that line ministries/agencies have struggled to find appropriate output measures.

Respondents from three different ministries agreed that performance culture should be initiated by top-level management. One of the respondents from the State Administration Agency (LAN) noted that top leaders affect the performance culture. The change in leadership would create a different culture. Another respondent from the Ministry of Foreign Affairs also noted that the performance culture in his ministry was still oriented towards routine activities and the awareness of managing performance at any level organisation, particularly at the top management, was minimal. A similar comment was also made by a respondent from the Ministry of Law and Human Rights, arguing that top managers (minister, vice-minister, directorate generals) have not understood about performance information. They have not used performance information for decision-making. One interviewee from the Ministry of Administrative and Bureaucratic Reform thought that the challenge facing by line ministries/agencies is how to make performance information routinely used by them in measuring performance. He suggested the following.

We should change the mind-set of management and staff regarding their awareness about performance and how their performance should be measured (Head of Planning and Performance Management Bureau, the Ministry of Administrative and Bureaucratic Reform, Interview 16).

A practitioner from the Ministry of Forestry acknowledged that it was difficult to change the mind-set of personnel toward making performance reports. One respondent from the National Narcotics Agency (BNN) noted that there are divisions within the agency that have not understood about the importance of performance information when preparing budget documents (RKAKL). This situation has affected

the performance of the agency. However, a respondent from the Ministry of Industry gave the example of performance culture that has been introduced in his ministry.

We have developed performance culture in our ministry: conducting a 'Performance Forum' every three months, issuing a performance ranking for Echelon I and II units for every six months, 'naming and shaming' for the best-three units and the worst-three units, monitoring and assisting units that have poor performance, and others (A practitioner from the Ministry of Industry).

### **7.3.3 Lack of Commitment From Line Ministries/Agencies**

Performance-based budgeting can be implemented effectively if all stakeholders involved are committed to carry out their responsibilities. With regard to gathering performance information, three officials from the Ministry of Planning argued that gathering performance information from line ministries/agencies was difficult. An official from the Directorate of Religion, Culture, and Sport commented that the Ministry of Planning had difficulties in making decisions if there was inadequate information from ministries/agencies. Two of them stated that there was lack of compliance from line ministries/agencies in submitting performance reports. One official argued as follows.

There was lack of compliance of line ministries/agencies to submit performance reports. Our communication with them was less intense. I feel that they didn't need other institutions. (Head of Directorate at the Directorate of Water and Irrigation, the Ministry of Planning, 46).

Three officials from the Directorate General of Budget pointed out the lack of commitment from line ministries/agencies to implement performance-based budgeting. An official from the Directorate of Budget I argued that if line ministries/agencies have a commitment to implement it therefore line ministries/agencies should propose their budget based on performance information. Two of them pointed out that the awareness of line ministries/agencies needs to be improved. Line

ministries/agencies should understand that performance-based budgeting could only achieve its aims if there is a desire from line ministries/agencies to implement it. They argued that performance-based budgeting was implemented for the benefit of ministries/agencies, not for the benefit of the Ministry of Finance or the Directorate General of Budget.

#### **7.3.4 Lack of Coordination Between the Ministry of Planning and the Directorate General of Budget**

As discussed in Chapter 3, there are two government institutions in Indonesia that have responsibility in managing the planning and budgeting process: the Ministry of Planning and the Directorate General of Budget in the Ministry of Finance. Therefore, good coordination between these two institutions is important to ensure that performance-based budgeting is implemented in the planning and budgeting process. Government practitioners were asked their views regarding the coordination between the two institutions in the planning and budgeting process.

An official from the Directorate of Transportation in the Ministry of Planning commented that he almost never communicated with officials from the Directorate General of Budget. They only met during trilateral meetings and budget meetings, three times maximum in a year. When asked whether there were discussions between officials from the two institutions during the preparation of the indicative budget ceilings of ministries/agencies, one interviewee from the Directorate of Religion, Culture, Youth, and Sport in the Ministry of Planning argued that officials from both institutions never discussed that matter. In the Ministry of Planning, the Office of the Deputy of Development Funding is the only office that carried out discussions with



officials from the Directorate General of Budget in determining the indicative budget ceilings of all line ministries/agencies. Another interviewee from the Directorate of Forestry complained that officials of the Directorate General of Budget were less concerned with the forestry sector.

I feel that officials of the Directorate General of Budget considered that our sector was not really important. Their Director has never attended the trilateral meetings. The officer attended that meeting was only Echelon III or IV [lower managers]. We invited them for a certain meeting, but only their Echelon IV would come (Head of Sub Directorate, the Directorate of Forestry, the Ministry of Planning, Interview 15).

To improve the planning and budgeting process, three practitioners from the Ministry of Planning suggested that the Ministry of Planning and the Directorate General of Budget should be merged into one institution. One of them commented as follows.

Ideally the planning function and the budgeting function should be combined in one institution. If not, the responsibilities of the two separate institutions should be made clearer (Head of Sub Directorate, the Directorate of State Apparatus, the Ministry of Planning, Interview 19).

Turning to the views of officials from the Directorate General of Budget, one interviewee from the Directorate of Budget I acknowledged that both institutions, the Ministry of Planning and the Directorate General of Budget, do not have intensive coordination. He commented that in a particular budget year, the officials from both offices might meet only two or three times. Another interviewee from the same division believed that the two institutions should improve their coordination. He felt that officials of the Ministry of Planning thought their job was done after they had issued the indicative budget ceilings. They did not really pay attention to the next stages of budgeting process. When asked whether the two institutions should be merged, he made the following comment.

I think the Directorate General of Budget and the Ministry of Planning should be combined into one institution. It will improve our function and eliminate “ego” between two institutions (Head Section at the Directorate of Budget I, the Directorate General of Budget, Interview 25).

However, three officials from the Directorate of Budget II and III argued that there is no problem with the separation of the Directorate General of Budget and the Ministry of Planning. They believed each institution could carry out its duty with the current arrangement.

There were varied views from government practitioners of line ministries/agencies regarding coordination between officials of the Ministry of Planning and the Directorate General of Budget. Five practitioners from different ministries/agencies argued that coordination between officials from the two institutions should be improved. Two practitioners from the Ministry of Administrative and Bureaucratic Reform and the Audit Board of Indonesia argued that in the current situation, the Directorate General of Budget in the Ministry of Finance has more power than the Ministry of Planning because the Ministry of Finance is the one that has the money and determines the budgets. One of them, an official of the Ministry of Administrative and Bureaucratic Reform, suggested that to improve their functions, both institutions should be merged. Another practitioner from the Audit Board of Indonesia suggested that before budget meetings, the officials from both offices should meet first and make an agreement on how they will review budget proposals (the work plan and budget documents, or RKAKL). One practitioner from the Ministry of Education and Culture expected that the Ministry of Planning would have more power in the performance-based budgeting process. Currently, after issuing the indicative budget ceilings, it hands over the next processes to the Directorate General of Budget.

In contrast to their colleagues, five practitioners from various line ministries/agencies argued that the Ministry of Planning and the Directorate General of Budget had good

coordination. One practitioner from the Audit Board of Indonesia argued that while in other functions both offices had a good coordination, in the monitoring and evaluation process they still worked separately. Another practitioner from the Ministry of Public Works also commented that both institutions had a good coordination particularly in preparing the Government Work Plan (RKP). However, he could barely recognise the roles of the officials from the Ministry of Planning during the work plan and budget (RKAKL) review meetings. He argued that their roles in RKAKL review meetings were less effective. One practitioner from the Corruption Eradication Commission argued that both institutions had good coordination. They had decided their function and responsibilities so that their functions were not overlapped. A practitioner from the Ministry of Public Works particularly commented that the coordination between both offices was adequate stating that the Ministry of Planning was concerned on performance targets, while the Ministry of Finance focused on inputs or budgets. However, he suggested that the planning and budgeting functions could be integrated in one institution to improve the effectiveness of budgeting process.

## **7.4 Personnel and Technical Capacity**

This section reports findings relating to staff capacity, information system capacity, and time constraints in reviewing performance and budget proposals.

### **7.4.1 Personnel Capacity**

Practitioners from various line ministries/agencies remarked on the challenge they have with regard to the capacity of personnel or staff in implementing performance-based budgeting. One practitioner from the Ministry of Forestry stated that the implementation of performance-based budgeting really depended on the human resources that implement the system. Another practitioner from the Ministry of

Education and Culture commented that one problem within his ministry was that most of the time staff, starting from lower level staff, lower-level managers until top-level managers, did not do their jobs. He stated strongly that it was common that top-level managers within his ministry did not understand what they should do. He then suggested the following.

The implementation of performance-based budgeting should be followed by reforms in other sectors such the autonomy to recruit staff and the change of remuneration system (Head of Planning Bureau, the Ministry of Education and Culture, Interview 04).

Another practitioner from the same ministry commented that his office did not have enough staff to review budget proposals. From the open question on the questionnaire, lack of quality and capacity of staff was also mentioned by a practitioner from the Ministry of Cooperative and Small Medium Enterprise. He argued that the lack of quality and capacity of civil servants affected the use of performance information in their office.

#### **7.4.2 Information System Capacity**

The use of performance information could be more effective if government institutions had an appropriate information system to assist practitioners in collecting and analysing performance information. The lack of information system capacity in the Ministry of Planning was acknowledged by the Deputy of the Development Funding. He explained that they have not collected performance information of every ministry/agency systematically. Another official from the Directorate of State Apparatus in the Ministry of Planning also argued that the support from top management in using performance information should be followed by the establishment of appropriate information system. He explained that the development

of an evaluation system based on the Government Regulation No. 39/2006 had recently been introduced.

The lack of information system capacity was also revealed by practitioners from line ministries/agencies. A practitioner from the Ministry of Forestry commented that his office does not have a web-based performance management system that could be used to monitor performance of the ministry. A respondent to the questionnaire from the National Counter-Terrorism Agency (BNPT) stated a similar view, explaining that because BNPT had just been formed in 2011, it has just started developing a performance information system. Another respondent from the Ministry of Law and Human Rights suggested that it is necessary for the Ministry of Bureaucratic Reform and the Ministry of Planning to coordinate in creating an integrated system that covers a range of aspects such as planning, budgeting, performance targets, and performance results. This is very useful for pursuing follow up actions if there are activities that could not achieve their targets.

#### **7.4.3 Lack of Time in Reviewing Budget Proposals and Performance**

Lack of time in reviewing budget proposals (the annual work plan and budget or RKAKL) was noted by three budget officials from the Directorate General of Budget. One of them, from the Directorate of Budget II, explained that before the budgeting process for budget year 2014, budget officials just focused in evaluating inputs in budget proposals. Since budget year 2014, they focused in reviewing budget proposals with regard to how activities stating in the proposals would achieve performance targets. However, they could not do it effectively because they did not have sufficient time to carry out the review process. Three practitioners from line

ministries/agencies also commented on the lack of time faced by officials from the Directorate General of Budget in reviewing RKAKLs. One of them, from the Ministry of Forestry, argued that the officials of the Directorate General of Budget had not sufficient time to review performance targets in budget proposals (RKAKLs) because they just began reviewing the proposals at the time when they received those documents in the budget meetings with line ministries/agencies. One practitioner from the Agency for Assessment and Application of Technology (BPPT) argued that the budgeting process has a limited time frame, so government officials from the Ministry of Finance and the Ministry of Planning have no opportunity to review performance information.

## **7.5 Conclusion**

This Chapter has discussed findings on the challenges faced by government practitioners in implementing performance-based budgeting. The evidence has provided insights on the problems with the quality of performance information. The interviews also revealed that there were different performance systems used by government officials in the Ministry of Planning and the Directorate General of Budget, and lack of evaluation feedback from budget officials. The presence of incremental budgeting practice also affected the implementation of performance-based budgeting in Indonesia.

This chapter also set out findings related to support and the behaviour of government officials in managing performance. Despite some encouraging evidence, the problems with leadership support, changing behaviour of management and practitioners still

troubled the planning and budgeting process. The lack of coordination between authorities also affected the process.

Overall, the evidence suggested that government officials and practitioners had supported the concept of performance-based budgeting and had made much effort to implement it. However, there were some gaps in practical implementation and it is not surprising that there is still a good deal of heritage from the old behavior and system that hindered the implementation of performance-based budgeting in Indonesia.

The next chapter will discuss the summary of this thesis, the contribution of the study, and policy recommendations.

## **Chapter 8 - Conclusion**

### **8.1 Summary of the Thesis**

Ever since the Asian financial crisis of 1997 and the political transition in Indonesia of 1998 Indonesia has made a substantial effort to implement performance-based budgeting. Indeed, in 2003 a key set of laws and regulations were put in place to guide the planning and budgeting process and to facilitate the implementation of performance-based budgeting. Since then, the government has taken out a series of further measures designed to support its implementation, including, in 2009, the restructuring of spending programmes and activities in line ministries/agencies, and the development of performance indicators to strengthen performance measurement and evaluation within the planning and budgeting process. Such initiatives have also been refined and subject to further gradual development since 2011.

Against such a background, this thesis has sought to assess the effectiveness and impact of these efforts over the period 2011 to 2014 through its focus on the following four research questions:

1. Is there evidence that performance results/scores are used in determining budget allocations?
2. Is there evidence that incremental budgeting practices still exist in the planning and budgeting process?
3. How, in practice, do government practitioners use performance information in the planning and budgeting process?
4. What challenges have government practitioners encountered in seeking to implement performance-based budgeting?



From the findings of the empirical research undertaken for this thesis, the answers to these questions can be summarised as follows:

**RQ 1. Is there evidence that performance results/scores are used in determining budget allocations?**

A strong conclusion from the research is that the most important budget allocation decisions made by the government are the setting of indicative budget ceilings. The findings suggest, in the period under examination, the aggregate budget change from the indicative budget ceilings to the succeeding budget decision stage was minimal. Moreover, it was noted that such changes in the indicative budget ceilings often occur in the latter budget-making stages when they more likely reflect necessary adjustments, in response, for example, to changes in macroeconomic forecasts and assumptions, new initiatives proposed by line ministries/agencies, new directions from the President, the policy of the government to increase salaries of civil servants, the agreement reached between line ministries/agencies and the Parliament, and/or budget optimisation requested by the Parliament. However, such changes are generally minor. In the indicative budget ceilings stage, the influence of the Parliament was also found to be limited or non-existent. Here, Parliamentary influence on the budget allocation decisions would only be felt in the later budget stages: i.e. in setting the budget ceilings and determining the budget allocation. Accordingly it was concluded that the roles of the Ministry of Planning and of the Directorate General of Budget in the Ministry of Finance were the key factors in deciding the indicative budget ceilings for line ministries/agencies, and hence in deciding the final budget.

The findings highlighted how government officials at ‘sector directorates’ in the Ministry of Planning had indeed sought to use the performance information of line ministries/agencies by considering past performance and forecasting the current year’s achievements as a basis for formulating the indicative budget ceilings. However, the Office of the Deputy of Development Funding did not make use of the proposals from sector directorates because the proposals were not considered sufficiently reliable. The indicative budget ceilings were determined with the aim of achieving the goals and priorities of the government as set out in its work plan (RKP). The Office of the Deputy of Development Funding had then to consider how much money the government had (the resource envelope), and all budget rigidities. The Ministry of Finance would set out the resource envelope based on the fiscal policies of the government, while the responsibility of the Ministry of Planning, would be to balance all government priorities. The Office of the Deputy of Development Funding acknowledged that there were no recognised formulae for determining the budget and that using performance information in determining the budget was “a very difficult task”. Generally, the use of performance information for determining the budget was found to be only weakly structured. Indeed, the Office of the Development of Funding in the Ministry of Planning did not use the RKAKL performance scores based on the Minister of Finance regulation 249/2011 (PMK 249/2011) because they were regarded as being largely financial in nature rather than reflecting evaluation of other aspects. Another reason that was identified as accounting for the lack of use of performance information was that the Ministry of Planning did not have in place a good system for gathering all the necessary information together.

The findings also suggested that the use of performance information by government officials from the Directorate of Budget I, II, and III at the Directorate General of Budget in the Ministry of Finance was very limited. Here the focus was mainly on determining the operational budget and using the previous years' budget allocations and spending of line ministries/agencies to formulate the indicative budget ceilings. It was also recognised that the role of the budget officials here in determining budgets was hardly effective because of the heavy reliance placed on the size of the available resource envelope. The results of the interviews also indicated the existence of budget rigidities or budget constraints that meant operational budgets and mandatory budgets were prioritised ahead of budget allocations for other activities.

In the statistical analysis of the relationship between total RKAKL performance scores and percentage changes in the indicative budget ceilings we were unable to reject the null hypothesis of no relation between RKAKL performance scores and budget allocations. Although not a strong result, this finding was consistent with our findings from the interviews with government officials from the Ministry of Planning, the Ministry of Finance, and line ministries/agencies of no effect of performance scores on budget changes.

**RQ 2. Is there evidence that incremental budgeting practices still exist in the planning and budgeting process?**

The findings revealed many factors affecting budget allocation decisions. The examination of the letters/decrees of the Minister of Planning and the Minister of Finance related to the issuance of the indicative budget ceilings, the budget ceilings, and the budget allocation for the budget years of 2011-2014 revealed that their

ministries determined the indicative budget ceilings for each line ministry/agency based on the following factors: the policies of the President; the agreement in the cabinet meetings; the budget priorities; budget proposals for new initiatives from line ministries/agencies; the forward estimates as reported by all line ministries/agencies in their previous year's budget documents; the estimation of the previous year's budget spending.

With regard to the factors affecting the budget ceilings and the budget allocations, the research revealed that there were at least five factors that affected budget changes from the indicative budget ceilings to the budget ceilings and the budget allocations. These factors were: the reallocation from other budgets to a particular ministry/agency; budget adjustments to cover activities funded by non-tax revenue/loan/grant; budget adjustment to add education budgets as required by law; other budget adjustments; and budget adjustments for the salaries and allowances of personnel.

According to the evidence from the Ministry of Planning, the five most important factors affecting the indicative budget ceilings were: (1) the annual policies of the President; (2) the previous year(s) budget allocations; (3) the budget projection stated in Medium Term Expenditure Framework (MTEF) 2010-2014; (4) the results of trilateral meetings; and (5) the previous year(s) budget spending. Performance information (i.e. in the form of performance targets and RKAKL performance scores) was a notable absentee from this list of the five most important factors affecting budget allocations. However, performance targets in line ministries/agencies' work plan (RENSTRA-KL) and RKAKL documents are ranked 6 as a factor affecting

budget allocations. As the Ministry of Planning is only responsible for issuing the indicative budget ceilings, it was interesting to note that its government officials did consider performance targets when exercising their responsibility in this respect.

Turning to the evidence from the Directorate General of Budget in the Ministry of Finance officials, the five most important factors affecting budget ceilings were: (1) the annual policies of the President; (2) the previous year(s) budget spending; (3) the previous year(s) budget allocations; (4) budget proposals for new initiatives from line ministries/agencies; and (5) the annual baseline adjustments by line ministries/agencies. Again, similar to evidence from the Ministry of Planning, performance information (i.e. in the form of performance targets and RKAKL performance scores) was not included in the five most important factors affecting budget allocations. Performance targets in line ministries/agencies' work plan (RENSTRA-KL) and RKAKL documents, and the RKAKL performance score based on the Minister of Finance Regulation 249/2011 were only ranked in positions 11 and 12 respectively. Therefore, as the Directorate General of Budget in the Ministry of Finance is responsible for determining the three resource allocations (the indicative budget ceilings, the budget ceilings, as well as the budget allocations), performance information (both performance targets and performance scores) was found to have been given least consideration by the officials in that ministry for determining budgets of line ministries/agencies.

Overall, according to the evidence from the Ministry of Planning and the Ministry of Finance, the previous years' budget allocations were the second and the third most important factors respectively used in their determination of budget allocations. This

evidence indicated that incremental budgeting still plays a significant role in the Indonesian planning and budgeting process.

The key finding from the statistical analysis, using the magnitude of change in budget allocations and the incremental trend model, indicated that the incremental practices in budgetary allocation decisions continue to persist in Indonesia. We found there was a significant correlation between successive years' budgets. Although this simple correlation model lacks statistical sophistication, this finding, which corresponds with the findings from the interviews, suggest that the previous year's budget allocations still drive the budget decisions for the following year to a significant degree or, put another way, the previous year's allocations still shape the indicative budget ceiling decisions.

**RQ3. 'How, in practice, do government practitioners use performance information in the planning and budgeting process?'**

Here the research provided insights on the use of performance information by government officials/practitioners from four key institutions: the Ministry of Planning, the Ministry of Finance, Members of Parliament, and line ministries/agencies.

Generally, government officials from the Ministry of Planning and the Ministry of Finance had initiated use of performance information in the planning and budgeting process. It was found that performance information is available not only for the fulfilment of formal requirements in the planning and budgeting process, with government officials from both ministries using performance targets for examining

budget proposals from line ministries/agencies. However, the Ministry of Planning and the Ministry Finance was found not to use performance information to make budget cuts or in increasing budgets for line ministries/agencies.

Government practitioners from the Ministry of Planning and the Directorate General of Budget also make some use of performance information in the various stages of planning and budgeting. In trilateral meetings, government officials from the Ministry of Planning are responsible for ensuring that particular performance targets regarded as national priorities are included in the annual work plan of line ministries/agencies (RENJA). On the other hand, the role of government officials from the Directorate General of Budget is to ensure that the budget amount proposed by line ministries/agencies follows the budget amount stated in the circular letter concerning the indicative budget ceilings. Government officials from the Directorate General of Budget appeared from the research to be more focused on the specific type of budget, such as personnel expenditures or other operational expenditures, than on reviewing performance targets proposed by line ministries/agencies.

In budget reviews or RKAKL review meetings, it was found that the officials from the Ministry of Planning had only limited involvement in the process. Indeed, several officials from the Ministry of Planning indicated their reluctance to be involved in the meetings, feeling that the regulation that instructed them to do so was inappropriate (the Minister of Finance being the one who issued the regulation, not the Minister of Planning). It appears from the research here that an institutional problem exists and needs to be resolved before government practitioners can do their jobs as intended. Therefore, the role of government officials from the Ministry of Planning in the

RKAKL review meetings currently seems more about fulfilling formal obligations than anything more significant. It was noted that while the officials from the Directorate General of Budget are expected to have more control in these meetings in practice the findings suggest a more varied pattern of influence. Some government officials from line ministries/agencies argued that officials from the Directorate General of Budget still focus on the inputs or the costs of the activities being planned rather than examining the performance indicators/targets proposed by line ministries/agencies. Moreover, some other practitioners from line ministries/agencies and the Directorate General of Budget suggested that the Directorate General of Budget was likely to review performance targets in budget documents (RKAKLs). It was also noteworthy that past performance/performance results had, it was said, never been discussed in the meetings. In addition, officials from the Directorate General of Budget pointed that they had no authority to increase or to cut budgets if there was no connection between the performance targets and the proposed-budget by line ministries/agencies.

With regard to monitoring and evaluation, the majority of officials from the Ministry of Planning commented that they undertook such tasks by checking the achievement of performance targets as set out in the national medium term development plan (RPJMN). However, they indicated that they found it difficult to monitor more routinely because line ministries/agencies sometimes did not always submit the data as required. In general, government officials from the Directorate General of Budget only monitored the budget spending of line ministries/agencies. Although they claimed to have a system to monitor the performance of line ministries, it was acknowledged that line ministries did not update their progress regularly enough.



Officials of the Directorate General of Budget also generally failed to execute an evaluation process, in their case because there was no guidance for them on how to conduct such evaluations. It was generally recognised that they were all still in the learning stages of monitoring and evaluation.

Turning to the use of performance information by Members of Parliament, it was revealed that, in general, Members of Parliament did not use performance information in budgeting decisions, being more concerned with their broader political interests and with the kind of issues raised by individual constituents than with specific performance information. Members of Parliament indicated that they still tended to use the overall percentages of budget spending as a measure by which to assess the government's performance and were often more concerned with the availability of fiscal space in allocating budgets for ministries/agencies. One Member of Parliament, for example, commented that the implementation of performance-based budgeting by Members of Parliament was largely ineffective because it mostly depended on the policy of each party in the Parliament. He suggested that line ministries/agencies followed a pattern of increasing their budget proposals by approximately 10% every budget year. He further mentioned that a key problem for Members of Parliament in seeking to use of performance information was that it was provided too infrequently by the government.

With regard to the use of performance information in line ministries/agencies, it was revealed that the majority of line ministries/agencies used performance information in preparing budget proposals and budget documents (RKAKLs) to be submitted to the Ministry of Planning and the Ministry of Finance. They also used performance

information to try and convince budget examiners from those ministries as to the justification for the proposed spending. Performance information was also presented in Parliament during budget meetings to seek Parliamentary support for particular programmes/activities.

It was also found that a small majority of line ministries/agencies used performance information to cut or increase the budgets proposed by each division/department within their ministry/agency. In addition, it was used, along with other factors, by line ministries/agencies in considering the allocation of budgets for their subordinates. However, once again it was clear that past budget allocations and past budget spending still played the key roles in determining the new budgets.

The research also identified how government practitioners in line ministries/agencies used performance information for more routine managerial purposes. Indeed, performance information has generally become well integrated into the performance management systems of most line ministries/agencies. The majority of line ministries/agencies also use performance information for reporting purposes to external parties, such as the Ministry of Planning, the Ministry of Finance, and for external reporting to the public. In this latter respect, it was found that performance information is often used to garner public support and to persuade communities about the good work of the ministries/agencies. A large majority of line ministries/agencies also indicated that their managers used performance information to understand more about their programmes/activities and to help improve their programmes/activities.

Overall, the findings from the research reveal that budget actors from the Ministries of Planning and of Finance, Members of Parliament, and line ministries/agencies have taken steps to use performance information, but that they are still in the early stages of doing so to inform budgetary decisions. The findings also reveal the continuing dominance of the practice of incremental budgeting based on past budget allocations, in proposing new budgets to Parliament.

**RQ4. ‘What challenges have government practitioners encountered in seeking to implement performance-based budgeting?’**

The empirical research for this thesis has revealed a number of challenges encountered by government practitioners in implementing performance-based budgeting. These can be divided into three major categories: challenges with the measurement system; challenges in winning support for managing performance; and challenges relating to capacity – both personnel and technical - in implementing performance-based budgeting.

The analysis particularly highlighted the difficulties involved in determining and measuring the appropriate outputs and outcomes for each line ministry/agency. Some officials from the Ministry of Planning and the Ministry of Finance also argued that there were too many outputs in the budget documents and that most of them might not be the most appropriate outputs in any case. Some officials from the Directorate General of Budget also suggested that often the data related to “intermediate outputs” rather than the intended ones and the frequently the definitions of outputs were insufficiently clear because the budget documents (RKAKLs) were too formulaic and rigid. It was also often unclear whether the budget authorities were measuring

outputs/outcomes of the line ministries/agencies or of all bureaux/directorates/divisions within each line ministry/agency. The findings also highlighted how a performance measurement system based on the Minister of Finance Regulation 249/2011 was hardly a credible one for measuring the performance of line ministries/agencies. Line ministries/agencies also emphasised the difficulties encountered in receiving performance information in a timely manner. In addition, the findings showed little or no connection between outputs/outcomes in the budget documents and the national outcomes in reality. It was often unclear which performance indicators (outcomes and outputs) were appropriate for different levels of government, such as outcomes of interest to the President, to Ministers, or to the lower ranks within the government institutions i.e. line ministries/agencies. It was suggested that performance, as measured in the budget documents (RKAKLs) represented only the performance of working units at the Echelon II level, such as bureaux/directorates, within line ministries/agencies.

Another key finding was that government officials/practitioners use different performance measurement and evaluation systems from one another. Government officials from the Ministry of Planning, for example, stated that they had never heard of or used performance information based on the Minister of Finance Regulation 249/2011 (PMK No 249/2011). The Ministry of Planning officials, on the other hand, claimed to use at least four different performance report sources: the Government Regulation No. 39/2006, the Government Regulation No. 8/2006, a tool that they themselves had developed to produce performance information, and various other performance information sources. In contrast, although government officials from the Directorate General of Budget were familiar with PMK No 249/2011, they were

doubtful about the idea of using measures associated with this regulation for budget formulation and budget reviews. Indeed, they acknowledged that they were not in the habit of conducting evaluations based on this regulation. It was also found that the use of such data was less than ideal because the results did not cover all the aspects of evaluation mandated by the regulation. At least until the time of the fieldwork for this thesis, there had been little or no consensus reached between three ministries - the Ministry of Planning, the Ministry of Finance, and the Ministry of Administrative and Bureaucratic Reform - with regard to simplifying the system of performance monitoring and evaluation. It was also found that the Directorate General of Budget rarely, if ever, provided line ministries/agencies with formal feedback on the performance measurement and evaluation reports and the results within them. Moreover, the Directorate General of Budget did not have a system for giving such feedback.

As already indicated, an important finding from the research was of the continuance of traditional and incremental budgeting – this perhaps reflecting the fact that no existing regulation explicitly states that budgets should be determined by performance. Also, performance-based budgeting in Indonesia has been implemented in much the same ways as the implementation of line-item budgeting, albeit supplemented by performance indicators. Another example of how traditional and incremental budgeting still operates in practice was evident in the comments made about insufficient flexibility in the budget execution stage. The Ministry of Finance, it was suggested, should focus on how well a ministry/agency achieves its performance targets rather than be too rigidly preoccupied with examining exactly how it spent the money. In monitoring the performance of line ministries/agencies, the government was said to be still focused more on the percentages of budget

spending, rather than on the achievement of performance targets. The Ministries of Finance and of Planning were, it was asserted, more usually focused on the previous year's budgets for budget allocation decisions than with performance results and performance targets.

The research also identified some problems with leadership and management support for performance budgeting. In the Ministry of Planning, for instance, it appeared that leaders were offering only tacit support and indeed never actually required government officials to use performance information in the planning and budgeting process. Similarly, in the Directorate General of Budget, while several government officials claimed that had made suggestions in relation to the determination of indicative budget ceilings, their voices were rarely heard or ideas given serious consideration by their leadership. Certainly, their input was never carried forward into budget-making decisions. Moreover, it was suggested that there was little or no support for the use of performance measurement data at top management level. In line ministries/agencies, senior managers were viewed as being insufficiently appreciative of the potential value of performance information and the planning and budgeting process was still widely seen as only an administrative process and one to be conducted by lower level staff. Upper level management simply did not pay much attention or become particularly involved in the process. In this respect it was argued that top-level management needed to initiate behaviour change with regard to performance and to lead the development of a stronger performance culture with their organisations.

Another key finding of the research concerned the lack of coordination between the Ministry of Planning and the Ministry of Finance in the planning and budgeting

process. Good coordination between these two key institutions would obviously be important in ensuring the successful implementation of performance-based budgeting in the planning and budgeting process. However, it was found that government officials from both ministries did not maintain particularly good communication with one another, meeting only two or three times a year during trilateral meetings and budget meetings. Moreover, the research highlighted the lack of discussions between officials from the two institutions during the preparation of the indicative budget ceilings. In the Ministry of Planning, the Office of the Deputy of Development Funding was found to be the only unit carrying out discussions with officials from the Directorate General of Budget in determining the indicative budget ceilings of all line ministries/agencies. Furthermore, government officials from the Directorate General of Budget in the Ministry of Finance felt that officials of the Ministry of Planning considered their job to be done as soon as they had issued the indicative budget ceilings; failing to pay attention to the subsequent stages of the budgeting process. In practice, the Ministry of Finance was found in the research to be exercising more power and influence than the Ministry of Planning, largely because it was the keeper of the money and had the responsibility for determining the budgets.

Overall then, the research evidence suggests that, while government officials and practitioners mostly support the concept of performance-based budgeting and have made much effort to implement it, there remain some key problems and gaps in its practical implementation. Above all, and perhaps not surprisingly, there remains a good deal of heritage from the old ways of working and traditional practices that have hindered the full implementation of performance-based budgeting in Indonesia.

## **8.2 Contributions of the Study**

The research for this thesis has generated much new evidence about the implementation of performance-based budgeting and particularly within a developing country context like Indonesia. The findings help to fill an important gap in knowledge, as represented in the published literature. In this respect a key outcome of the research is a better understanding of some of the key challenges in resource allocation decision-making – of building performance assessments into budget preparation and of engaging all relevant parties and expertise, including within as well as between different institutions, departments and their divisions. This research provides fresh insights on the vital role of the central budget offices, in the Indonesian case, the Ministries of Planning and of Finance, in determining budgets of line ministries/agencies. It was found that, at the stage of setting indicative budget ceilings, these offices exercise much more influence in deciding the budgets of line ministries/agencies than the Parliament. Indeed, the influence of the Parliament on budget allocation decisions is largely constrained to the final budget-making stages: the determination of budget ceilings and of the budget allocations. This was evident from the finding of minimal change being made between the initial setting of indicative budget ceilings and final decisions about allocations. Making fuller use of performance information in the process, the research has concluded, would make a significant positive difference in this.

The research also provides insights on the practice of ‘dual budgeting’ between the Ministry of Planning and the Ministry of Finance in the planning and budgeting process. In the context of performance-based budgeting, the research highlights the complexity of the challenge of coordinating two key, but separately functioning,



central government institutions, and also line ministries/agencies and the Parliament, in the budgetary decision-making process. Furthermore, the research throws light on the nature of incremental budgeting practices that have been much discussed in the literature in past decades and which, from this research at least, are shown still to persist and to represent a particular obstacle to the embedding of performance-based budgeting.

In addition, this research contributes to the institutional framework analysis that was drawn from old institutional economics as suggested by Burns and Scapens (2000). The process of performance-based budgeting can be seen as a set of new rules that has been enacted but is yet to become a set of office routines and potentially to be institutionalised in Indonesia. It is evident that the process of routinisation of performance-based budgeting in Indonesia was complex and hindered by the existing routines, i.e. incremental budgeting practices. Since the implementation of performance-based budgeting challenges the existing routines of incremental budgeting practices, the process of change takes time, is evolutionary, and it is not going to be easy to get to a stage where performance-based budgeting practices can be said to be institutionalised and widely accepted.

Importantly, the research serves to enhance knowledge and understanding not only in scholarly terms, but also for the practice of public sector management and administration, and not only in the context of Indonesia. In this regard the thesis highlights not only the potential benefits to be gained through implementing performance-based budgeting but also the key challenges to be confronted in so doing; many of which are of an institutional nature and certainly not confined to

Indonesia. Moreover, in identifying and highlighting such challenges, the research inevitably draws attentions towards the kinds of strategies, cultural adjustments and managerial behaviours that are likely to be necessary to overcome the obstacles and inertia that hinder realization of the many benefits of budget decision-making processes that reflect and respond more firmly and fairly to the achievements and disappointments in performance.

### **8.3 Policy Recommendation**

Having summarized the main findings and reflected on the contribution of the study as a whole, it is appropriate to consider the implications and make recommendations for policy and practice – first and foremost in Indonesia, but also in the wider context of developing and advanced economies as well. In this respect four particular recommendations are made and discussed below, in turn.

#### **8.3.1 Recommendation 1: Using Performance Information in Decision-Making About Indicative Budget Ceilings**

Since the indicative budget ceilings stage is undoubtedly the key one in resource allocation decision-making, it is necessary for the central ministries (in Indonesia, the Ministries of Planning and of Finance) to use performance information both in the form of data on recent achievements and in comparison with targets, explicitly at this stage to determine budgets of line ministries/agencies. If line ministries/agencies and the Parliament are well prepared to use performance information at this stage, the central budget authorities can expect to receive positive support from them.

That said, there also needs to be agreement regarding the kinds of performance information that is to be used for determining budgets from all the institutions and agencies involved in the process. Up to date performance information needs to be available on time, and to this end the support of line ministries/agencies in providing the data is vital. In the Indonesian context, such performance data might best be gathered and evaluated by ‘sector directorate’ officials in the Ministry of Planning and by officials from the Directorate I-III at the Directorate General of Budget in the Ministry of Finance who manage the planning and budgeting process routinely and who have a good understanding of the programmes/activities of line ministries/agencies under their responsibility. Moreover, it will be important that these officials are suitably skilled and trained for the analytical role that is needed for determining budgets of line ministries/agencies and for evaluating performance information for use within budgetary decision-making.

To minimise reliance on the previous year’s budget decisions (i.e. the incremental approach of using the previous year’s budget allocation in determining the new indicative budget), it will be important gradually to introduce expenditure reviews of programmes/activities of line ministries/agencies. Such reviews might be performed annually for different programme/activities and may prevent unnecessary budget being allocated to particular ministries/agencies and enable the saving so made to be reallocated to other more deserving programmes/activities.

### **8.3.2 Recommendation 2: Improving Coordination Between the Ministry of Planning and the Ministry of Finance**

The research has highlighted the lack of coordination between government officials in the Ministry of Planning and their counterparts in the Ministry of Finance in Indonesia and it is necessary for this problem to be addressed and for communication from both institutions to improve, particularly with regard to the preparation of the indicative budget ceilings stage. The officials who have most understanding of the programmes/activities of line ministries/agencies need to be given more responsibility and be trusted to provide analyses of how much budget should be given for particular ministries/agencies under their responsibility.

Furthermore, the Ministries of Planning and of Finance need to harmonise their roles in determining budgets, managing the trilateral meetings, and undertaking the RKAKL review meetings. To this end the Indonesian Government should issue a regulation that specifies the roles of both ministries specifically in the planning and budgeting process in order to address the misunderstandings and communication problems that have been highlighted in the current situation.

Both ministries also need to find agreement on the kinds of performance information to be included in any planning and budget documents and on how they will use it for decision-making because, according to the findings of this research, there are too many outputs in the budget documents and many of these outputs were inappropriate.

### **8.3.3 Recommendation 3: Establishing a Single Performance Measurement System**

The Ministries of Planning and of Finance, together with other ministries such as the Ministry of Administrative and Bureaucratic Reform, need to establish a single performance measurement system that can be used to monitor and measure performance of line ministries/agencies. Such a standardised measurement system could then be used by all concerned ministries for different purposes depending on their needs. The system could also be used for improving accountability to the Parliament and to the public in general. Currently there are at least three regulations for a performance measurement system: the Government Regulation No. 39/2006, the Government Regulation No. 8/2006, and the Minister of Finance Regulation (PMK) 249/2011. With a single performance system, each ministry could have the same information about the performance of line ministries/agencies. They could then evaluate performance of line ministries/agencies in a more consistent manner using the same performance data.

In addition, the Ministries of Planning and of Finance need to evaluate the results of performance measurement activity in line ministries/agencies and use them in the planning and budgeting process, including for budget allocation decisions. It is also necessary to give feedback on the results of evaluation to line ministries/agencies. The government should encourage line ministries/agencies to use the results of performance measurement for budget meetings with the Parliament. If the Members of Parliament recognised the benefits of a single measurement system and found it useful, it would surely encourage them to use the performance data themselves in informing the budgetary decisions. The government could also usefully encourage the

external auditor to use the same data gathered from performance measurement system to undertake performance auditing.

#### **8.3.4 Recommendation 4: Getting Continuous Support from the Parliament and Line Ministries/Agencies**

Getting support from the Members of Parliament, ministers and head of agencies is also necessary to encourage them in the use of performance information not only for the planning and budgeting process, but also for broader managerial purposes. If all leaders understand and appreciate the importance of performance information to the improvement of their own organisation's performance, this would naturally help develop a stringer performance culture within their organisations. Support from all leaders can perhaps make the difference with regard to implementing performance-based budgeting and the achievement of its aims and realisation of its potential.

### **8.4 Conclusion**

Finally, it is worth a reminder that this research has used a mixed methods approach in setting out to examine the implementation of performance-based budgeting in Indonesia. The main finding has been that Indonesia had made a substantial effort to implement performance-based budgeting and to use performance information in the planning and budgeting process. The Ministry of Planning, the Ministries of Finance, and line ministries/agencies have all been much involved in such implementation. However, the evidence gathered through the research has also shown that the use of performance information in resource allocation decisions is still quite limited. The review of literature and of other available evidence suggests quite clearly that Indonesia is no different from most countries in this respect. Although there are

positive signs from the research that performance information is increasingly being used for managerial purposes in line ministries/agencies, the problems of ensuring coordination and the various challenges and difficulties surrounding the performance measurement system, the quality of leadership and capability of management support, continue to hinder the implementation of performance-based budgeting and hold back realization of its benefits. Indonesia has been moving in the right track, but continuous improvement is much needed to achieve the intended objectives of implementing performance-based budgeting.

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## Appendices

### Appendix I Sources of Budgetary and Performance Scores Data

The study used the budgetary and performance scores data from the following sources:

No	Data	Budgetary Data at Ministry/Agency Level	Budgetary Data at Programme Level
1.	The Indicative Budget Ceilings of 2011	The circular letter of the Minister of Planning number 0181/M.PPN/04/2010 and the circular letter of Minister of Finance Number SE-120/MK/2010 regarding Indicative Budget Ceilings and The Initial Draft of the Government Work Plan.	The indicative budget ceilings of all Programmes for fiscal year 2011 were taken from the Minister of Finance Circular Letter Number SE-294/MK.02/2010 regarding the budget ceilings of fiscal year 2011. The indicative budget ceilings data were not obtained from the circular letter of the Minister of Planning number 0181/M.PPN/04/2010 and the circular letter of the Minister of Finance Number SE-120/MK/2010 because the indicative budget ceilings in this letter was only broken down at ministry/agency level. It was not broken down at programme level. Therefore, this study assumed that each line ministry/agency has an authority to divide its indicate budget ceilings into programme level and then the results were submitted to the Ministry of Finance.
2	The Budget Ceilings of 2011.	The Minister of Finance Circular Letter number SE-294/MK.02/2010 regarding the Budget Ceilings of fiscal year 2011.	The Minister of Finance letter number SE-676/MK.02/2010 regarding the Budget Allocations of Fiscal Year 2011.
3	The Budget Allocations of 2011	The Minister of Finance letter number SE-676/MK.02/2010 regarding the Budget Allocations of Fiscal Year 2011.	The budget allocations of fiscal year 2011 were collected electronically from the Directorate of Budgeting System's official. The data were received by an email on 10 September 2013. The official explained that the data were

No	Data	Budgetary Data at Ministry/Agency Level	Budgetary Data at Programme Level
			summarised from the President Regulation Number 26 Year 2010 regarding The Details of Central Government Budget of Fiscal Year 2011.
4	The Budget Spending of 2011	The Central Government Financial Report (Audited by The Audit Board of Indonesia) 2011.	Not available
5	The Indicative Budget Ceilings of 2012	The letter of the Minister of Planning number 0091/M.PPN/03/2011 and the Minister of Finance letter number SE-189.1/MK.02/2011 regarding the Indicative Budget Ceilings and the Initial Draft of the Government Work Plan for Fiscal Year 2012.	The letter of the Minister of National Planning number 0091/M.PPN/03/2011 and the Minister of finance letter number SE-189.1/MK.02/2011 regarding the Indicative Budget Ceilings and the Initial Draft of the Government Work Plan for Fiscal Year 2012.
6.	The Budget Ceiling of 2012	The Minister of Finance regulation number 215/KMK.02/2011 regarding the Budget Ceilings of fiscal year 2012.	The circular letter of the Minister of Finance number SE-01/MK.2/2011 regarding the Budget Allocations of Line Ministries/Agencies for Fiscal Year 2012.
7.	The Budget Allocations of 2012	The circular letter of the Minister of Finance number SE-01/MK.2/2011 regarding the Budget Allocations of Line Ministries/Agencies for Fiscal Year 2012.	The budget allocations of 2012 were collected electronically from the Directorate of Budgeting System's official. The data were received by an email on 10 September 2013. The official explained that the data were summarised from the President Regulation Number 32 Year 2011 regarding the Details of Central Government Budget of Fiscal Year 2012.

No	Data	Budgetary Data at Ministry/Agency Level	Budgetary Data at Programme Level
8	The Budget Spending of 2012	The Central Government Financial Report (Audited by The Audit Board of Indonesia) 2012	Not available
9	The Indicative Budget Ceilings of 2013	The letter of the Minister of Planning number 0096/M.PPN/03/2012 and the Minister of Finance letter number SE-214/MK.02/2012 regarding the Indicative Budget Ceilings and the Initial Draft of the Government Work Plan for Fiscal Year 2013.	The letter of the Minister of National Planning number 0096/M.PPN/03/2012 and the Minister of Finance letter number SE-214/MK.02/2012 regarding the Indicative Budget Ceilings and the Initial Draft of the Government Work Plan for Fiscal Year 2013.
10	The Budget Ceilings of 2013	The Minister of Finance regulation number 229/KMK.02/2012 regarding the Budget Ceilings of fiscal year 2013.	The circular letter of Ministry of Finance number S-769/MK.02/2012 regarding the Budget Allocations of Line Ministries/Agencies for Fiscal Year 2013.
11	Budget Allocations 2013	The circular letter of Ministry of Finance number S-769/MK.02/2012 regarding the Budget Allocations of Line Ministries/Agencies for Fiscal Year 2013.	The budget allocations of 2013 were collected electronically from the Directorate of Budgeting System's Official. The data were received by an email on 10 September 2013. The official explained that the data were summarised from the President Regulation Number 37 Year 2012 regarding The Details of the Central Government Budget of Fiscal Year 2013.
12	The Budget Spending 2013	The Central Government Financial Report (Audited by The Audit Board of Indonesia) 2013	Not available
13	The Indicative Budget Ceilings of 2014	The letter of the Minister of Planning number 1949/M.PPN/04/2013 and the Minister of Finance letter number SE-279/MK.02/2013 regarding the Indicative Budget Ceilings and the Initial Draft of the Government Work Plan for Fiscal Year 2014.	The letter of the Minister of Planning number 1949/M.PPN/04/2013 and the Minister of Finance letter number SE-279/MK.02/2013 regarding the Indicative Budget Ceilings and the Initial Draft of the Government Work Plan for Fiscal Year 2014.

No	Data	Budgetary Data at Ministry/Agency Level	Budgetary Data at Programme Level
14	Budget Ceilings 2014	Appendix I of the Minister of Finance Letter number S- 760/MK.02/2013	The Appendix II of the Minister of Finance Letter number S- 760/MK.02/2013
15	Budget Allocations 2014	The Appendix I of the Minister of Finance Letter number S- 760/MK.02/2013	The appendix I President Regulation Number 29 Year 2013 regarding the Details of the Central Government Budget of Fiscal Year 2014.
16	The Budget Spending 2014	The Central Government Financial Report (Audited by The Audit Board of Indonesia) 2014	Not available
17	Performance Scores of 2011	The data were collected electronically from the Directorate of Budgeting System's Official. The data were received by an email on 24 July 2013.	The data were collected electronically from the Directorate of Budgeting System's Official. The data were received by an email on 27 August 2013.
18	Performance Scores of 2012	The data were collected electronically from the Directorate of Budgeting System's Official. The data were received by an email on 24 July 2013.	The data were collected electronically from the Directorate of Budgeting System's Official. The data were received by an email on 27 August 2013.

## Appendix II Interview Guide

No.	Question
<b>A.</b>	<b>General questions</b>
1.	Name of organisation
2.	Name of participant
3.	Position/Division/Bureau:
4.	Number of years employed in this division
5.	Please describe your roles in the planning and budgeting process.
<b>B.</b>	<b>Performance-based budgeting in Indonesia</b>
1.	Based on your experience, please describe what do you know about the implementation of performance-based budgeting in Indonesia
2.	Do you agree that performance information (performance indicators and performance scores/evaluation) is the main element of performance-based budgeting? Please explain
<b>C.</b>	<b>The use of performance information in determining budget allocations</b>
1.	How useful is performance information in determining budget allocations?
2.	Does performance information directly affects budget allocation? Please explain.
3.	Please explain why performance information does or does not directly affect budget allocations?
4.	Please rank the twelve factors that affect budget allocations (I will give the list of factors below)
5.	Based on your ranking of factors, please explain why some factors give much influence on budget allocations than performance information?
6.	Based on the position of performance information in the ranking of factors, is it possible that performance information, directly and indirectly, influences budget allocation? Please explain
7.	What are the requirements needed to ensure that performance information could be used on budget allocation?
<b>D.</b>	<b>The use of performance information by budget actors outside the office of the interviewee (the Ministry of Planning/the Directorate General of Budget/Ministry/Agency)</b>
1.	Could you describe how do you, or your Directorate, use performance information in budgeting process? (for interviewees from the Ministry of Planning or the Directorate General of Budget only)
2.	Could you explain about the use of performance information by the Ministry of Planning/the Ministry of Finance/line ministries/agencies?
3.	Could you explain about the use of performance information by Members of Parliament?
4.	Please describe the working relationship between Directorate-General for Budget and the Ministry of Planning in terms of reviewing budget, budget decision and evaluating performance
5.	Please explain the use of performance scores that produced based on the Minister of Finance Regulation 249/KMK.02/2011 by those actors.
6.	Please describe the challenges faced in using performance information



No.	Question
7.	Please describe the top management and employees support in using performance information and performance cultures for budgeting process?
E.	The use of performance information by budget actors within Ministry/Agency (this section only for interviewees from line ministries/agencies).
1.	Please describe the use of performance information in budgeting process within Ministry/Agency
2.	Please describe the use of performance information for management, performance management system within ministry/agency, reporting and other purposes
3.	Please describe the challenges faced in using performance information
4.	Please describe the top management and employees support in using performance information and performance cultures within your organisation.

**Twelve possible factors affect budget allocation (for interview question number C.4)**

Variables	Ranked
The previous year(s) budget spending	
The previous year(s) budget allocations.	
The annual Policies of the President.	
The annual baseline adjustment by line ministries/agencies	
The informal discussions and negotiations between line ministries/agencies officials and the Ministry of Planning and/or the Ministry of Finance officials before the issuance of budget allocations	
The informal negotiations between line ministries/agencies officials and Member(s) of Parliament before the issuance of budget allocations	
Budget proposals for new initiatives from line ministries/agencies	
The budget projection stated in Medium Term Expenditure Framework (MTEF) 2010-2014	
The results of the work plan and budget documents (RKAKL) review meetings	
The agreement between line ministries/agencies and the Parliament in budget meetings	
The performance targets in line ministries/agencies' work plan (RENSTRA-KL) and RKAKL documents	
RKAKL performance scores based on the Minister of Finance Regulation 249/2011.	

## Interview Guide in Indonesian

No.	Pertanyaan
A.	Pertanyaan umum
1.	Nama instansi:
2.	Nama responden:
3.	Posisi/Jabatan responden di Biro/Divisi terkait:
4.	Lama bekerja di Biro/Divisi terkait:
5.	Peran responden dalam proses penganggaran:
B.	Penganggaran Berbasis Kinerja (PBK) di Indonesia
1.	Berdasarkan pengalaman Bapak/Ibu, mohon penjelasan apa yang Bapak/Ibu pahami tentang penerapan PBK di Indonesia.
2.	Menurut Bapak/Ibu, apakah informasi kinerja (indikator kinerja dan hasil evaluasi kinerja) merupakan elemen utama dari PBK? Mohon jelaskan.
C.	Pemanfaatan informasi kinerja dalam penentuan alokasi anggaran
1.	Selama ini, seberapa jauh manfaat informasi kinerja dalam penentuan alokasi anggaran di K/L Bapak/Ibu oleh Kementerian Perencanaan/Kementerian Keuangan?
2.	Apakah informasi kinerja yang disampaikan K/L Bapak/Ibu kepada Kementerian Perencanaan dan Kementerian Keuangan kemudian secara langsung berpengaruh pada alokasi anggaran K/L?
3.	Mohon penjelasan mengapa hasil evaluasi/nilai kinerja berpengaruh/tidak berpengaruh secara langsung terhadap alokasi anggaran K/L Bapak/Ibu?
4.	Berdasarkan pengalaman selama ini, mohon bantuan Bapak/Ibu untuk membuat urutan kedua belas faktor berikut yang dianggap mempengaruhi alokasi anggaran K/L Bapak/Ibu dari yang paling mempengaruhi sampai dengan yang paling kurang mempengaruhi alokasi anggaran (Daftar kedua belas faktor terlampir)
5.	Berdasarkan urutan yang telah disampaikan, mohon penjelasan mengapa beberapa faktor tersebut lebih berpengaruh terhadap alokasi anggaran daripada informasi kinerja?
6.	Berdasarkan posisi informasi kinerja dalam urutan faktor-faktor tersebut, apakah mungkin di kemudian hari informasi kinerja dapat berpengaruh langsung dalam penentuan alokasi anggaran?
7.	Menurut Bapak/Ibu, apa saja persyaratan yang diperlukan agar informasi kinerja dapat digunakan dalam penentuan alokasi anggaran?
D.	Pemanfaatan informasi kinerja oleh para pelaku anggaran di luar K/L interviewee

No.	Pertanyaan
1.	Berdasarkan pengalaman Bapak/Ibu, mohon penjelasan mengenai penggunaan informasi kinerja oleh pihak Ditjen Anggaran dalam proses penganggaran.
2.	Berdasarkan pengalaman Bapak/Ibu, mohon penjelasan mengenai penggunaan informasi kinerja oleh pihak Bappenas dalam proses penganggaran.
3.	Berdasarkan pengalaman Bapak/Ibu, mohon penjelasan mengenai penggunaan informasi kinerja oleh pihak DPR/Komisi terkait dalam proses penganggaran.
4.	Berdasarkan pengalaman Bapak/Ibu, mohon penjelasan mengenai hubungan kerja/koordinasi antara pihak Ditjen Anggaran dan Bappenas dalam mereviu usulan anggaran (Renja, RKA-K/L), pengalokasian anggaran dan evaluasi kinerja.
5.	Menurut Bapak/Ibu, bagaimana manfaat pengukuran kinerja RKA-K/L yang diamanatkan PMK No. 249/KMK.02/2011 oleh para pelaku anggaran tersebut.
E.	Pemanfaatan informasi kinerja di dalam K/L Bapak/Ibu (khusus untuk interviewee dari Kementerian/Lembaga)
1.	Mohon penjelasan mengenai penggunaan informasi kinerja dalam proses pengalokasian anggaran di dalam K/L Bapak/Ibu sendiri.
2.	Mohon penjelasan mengenai penggunaan informasi kinerja hasil dari PBK dalam proses manajemen di K/L Bapak/Ibu termasuk dalam sistem manajemen kinerja dan penggunaan lainnya.
3.	Mohon penjelasan tantangan yang dihadapi dalam pemanfaatan informasi kinerja.
4.	Mohon penjelasan bagaimana dukungan Pimpinan dan pegawai dalam penggunaan informasi kinerja serta budaya kinerja di K/L Bapak/Ibu.

Dua belas faktor yang mungkin mempengaruhi besarnya anggaran Kementerian/Lembaga (terkait pertanyaan nomor C.4)

Faktor yang mempengaruhi besarnya anggaran K/L	Peringkat
Penyerapan anggaran K/L tahun-tahun sebelumnya	
Alokasi anggaran K/L tahun-tahun sebelumnya	
Kebijakan Tahunan Presiden/Kebijakan Prioritas Nasional pada Rencana Kerja Pemerintah (RKP)	
Penyesuaian baseline dari K/L yang disampaikan kepada Ditjen Anggaran	
Diskusi dan negosiasi informal Sekjen/Sestama/Sesmen/Pejabat Biro Perencanaan K/L kepada pihak di Bappenas dan Ditjen Anggaran sebelum pagu terbit.	
Negosiasi Pejabat K/L kepada Komisi/Banggar DPR	

<b>Faktor yang mempengaruhi besarnya anggaran K/L</b>	<b>Peringkat</b>
Usulan anggaran Inisiatif Baru kepada Bappenas dan Ditjen Anggaran	
Perkiraan jumlah anggaran tahunan yang tercantum pada Kerangka Pengeluaran Jangka Menengah (KPJM) 2010-2014	
Hasil penelaahan RKA-K/L oleh Bappenas dan Ditjen Anggaran	
Hasil kesepakatan K/L dengan DPR	
Target Kinerja yang disampaikan kepada Bappenas dan Kementerian K/L pada dokumen Renja K/L dan RKA-K/L	
Hasil evaluasi kinerja tahun-tahun sebelumnya yang diukur berdasarkan PMK No. 249/KMK.02/2011	

## Appendix III Survey Questionnaire

### Survey of the Use of Performance Information in Performance-Based Budgeting of Indonesia

#### Background

In mid-2009, the Indonesian government initiated to reform its planning and budgeting process. The reform has been gradually implemented since fiscal year 2011. Government regulation number 90/2010 specifies that the annual work plans and budget documents of line ministries/agencies (RKAKL) are prepared using three approaches: medium term expenditure framework (MTEF), unified budgeting and performance-based budgeting.

Performance information, which includes performance indicators/targets and performance evaluation, is an important element in performance-based budgeting. Government regulation 90/2010 specifies that performance information must be used in budget proposals or RKAKL. According to the regulation, there are three instruments applied for preparing the RKAKL: performance indicators, cost standards, and performance evaluation. In order to evaluate performance evaluation, the Ministry of Finance issued a guideline for line ministries/agencies in evaluating their RKAKLs to produce RKAKL performance scores.

This survey is conducted as part of my research with the objective to explore how budget actors use performance information in budgeting process as well as in performance management. The scope of this survey is the planning and budgeting over the period of 2011-2014.

#### Survey participants

This survey is distributed to all line ministries/agencies that receive budget allocations from the government. This survey should be filled in by Head of Planning Bureau or a senior manager, as a representative of each line ministry/agency, who is responsible to manage the planning and budgeting process in her/his ministry/agency.

This survey is asking about the opinions and experience of each respondent in using performance information for the planning and the budgeting process and managerial activities. There is no true or false answers for this survey. Every answer will be valuable for this research.

Performance information that is defined in this survey covers performance indicators/targets that stated in planning and budget documents and RKAKL performance scores based on the Minister of Finance regulation 249/PMK.02/2011.

#### Confidentiality of Survey

I declare that all information are collected from this survey will only be used for my research and publications that related with my thesis. All personal information will be treated as confidential.

### How to send the result of Survey

The result of survey can be sent to:

1. [redacted] using provided stamp-enveloped; or
2. The result can be scanned and send by email to: [redacted] or
3. The researcher can directly collect the result. For collection arrangement please call at [redacted]

### Further information

If you need further information regarding this survey, you can contact the researcher. Thank you for your cooperation and participation.

#### Teguh Widodo

Postgraduate Doctoral Researcher  
University of Birmingham, UK

### The Questions

#### A. General Information

1. Name of Ministry/Agency : .....
2. Participant as the representative of ministry/agency:
  - a. Name : .....
  - b. Division/Bureau/Department : .....
  - c. Position : .....

#### B. The questions in this section are asking about your opinions and experiences in budget allocations process for the period of 2011 to 2014.

For questions number 1 to 3, please tick (✓) one appropriate answer for each question.

No.	Statements	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
		(1)	(2)	(3)	(4)	(5)
1.	The Ministry of Planning uses my ministry's <b>performance targets</b> as the main consideration to decide the Indicative Budget Ceilings of my ministry.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.	The Directorate-General for Budget uses <b>performance targets</b> as the main consideration to decide the Indicative Budget Ceilings, the Budget Ceilings, and the Budget Allocations of my ministry.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

No.	Statements	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
		(1)	(2)	(3)	(4)	(5)
3.	The Ministry of Planning and the Ministry of Finance use <b>performance scores</b> as the main consideration to decide the Indicative Budget Ceilings, the Budget Ceilings, and the Budget Allocations of my ministry.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4. There are at least twelve variables that could affect the budget amount of a ministry/agency. Based on your experiences in budgeting process, please ranked these factors from 1 to 12 with number 1 as a variable that has the most significant effect to budget amount and number 12 as the least significant.

Variables	Ranked
The previous year(s) budget spending	
The previous year(s) budget allocations.	
The annual Policies of the President.	
The annual baseline adjustment by line ministries/agencies	
The informal discussions and negotiations between line ministries/agencies officials and the Ministry of Planning and/or the Ministry of Finance officials before the issuance of budget allocations	
The informal negotiations between line ministries/agencies officials and Member(s) of Parliament before the issuance of budget allocations	
Budget proposals for new initiatives from line ministries/agencies	
The budget projection stated in Medium Term Expenditure Framework (MTEF) 2010-2014	
The results of the work plan and budget documents (RKAKL) review meetings	
The agreement between line ministries/agencies and the Parliament in budget meetings	
The performance targets in line ministries/agencies' work plan (RENSTR-KL) and RKAKL documents	
RKAKL performance scores based on the Minister of Finance Regulation 249/2011.	

Please specify here if there are other variables that affect budget allocations of your ministry/agency:

**C. The questions in this section are asking about your opinions and experiences in using performance information for the planning and budgeting process.**

Please tick (✓) one appropriate answer for each question.

1. The use of performance information by your ministry in the budgeting process that related to the Ministry of Planning, the Directorate General of Budget (DG Budget), and the Parliament.

My Ministry/Agency uses performance information to:	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
	(1)	(2)	(3)	(4)	(5)
Fulfil formal requirements as requested by the Ministry of Planning and DG Budget.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Decide the budget amount proposed to the Ministry of Planning, DG Budget and Parliament. My ministry/agency has been adjusted its budget proposal with performance targets before it was submitted to them.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Decide the budget amount proposed to the Ministry of Planning, DG Budget and Parliament. My ministry/agency has been adjusted its budget proposal with the results of performance evaluation or performance scores before it was submitted to them.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Convince budget examiners from the Ministry of Planning and DG Budget in budget meetings in relation with the proposed budget amount.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Present in budget meetings in the Parliament. The objective is to convince Parliament regarding the budget proposed.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please specify here, if any, the other ways of using performance information by your ministry/agency in budgeting process.



2. The use of performance information by your ministry/agency in budgeting process within your own ministry/agency.

In allocating budget to each Divisions/Departments, my ministry/agency:	Strongly Agree	Agree	Neither Agree Nor Disagree	Disagree	Strongly Disagree
	(1)	(2)	(3)	(4)	(5)
Only uses performance information to fulfil formal requirements as requested by the Ministry of Planning and DB Budget in budget documents.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Uses performance information to cut or add budget proposed by each Division/Department.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Uses previous year's budget allocation as a basis to decide the budget amount of each Division/Department without really care with performance information.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Uses previous year's budget spending as a basis to decide the budget amount of each Division/Department without really care with performance information.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Uses the combination of previous year's budget allocation and previous year's budget spending to decide the budget amount of each Division/Department without really care with performance information.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Uses performance information as a supporting tool to make budgeting decisions for each Division/Department.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Uses the combination of several factors such as performance information, previous year's budget allocations, and previous year's budget spending to decide the budget amount of each Division/Department.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please specify here, if any, the other ways of using performance information by your ministry/agency and or any consideration used in allocating budget within your ministry/agency.

**D. The questions in this section are asking your opinions and experiences about the use of performance information by your ministry/agency as part of performance management system and management activities.**

Statements	Strongly Agree	Agree	Neither Agree Nor Disagree	Disagree	Strongly Disagree
	(1)	(2)	(2)	(3)	(4)
Performance information in performance budgeting has been integrated in performance management system in my ministry/agency.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Performance information in performance budgeting cannot be used for performance management system in my ministry/agency.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My ministry/agency has a separate performance management system that differs from performance budgeting.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Performance information in performance budgeting is used for reporting purposes to external parties such as the Ministry of Planning, Directorate General of Budget, and the public.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Performance information in performance budgeting is used for improving programmes and activities within my ministry/agency.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Performance information in performance budgeting is used for getting support and convincing the public about the works of my ministry/agency.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Managers in my ministry/agency use performance information in performance budgeting to understand more about the programs and activities.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Our internal auditors regularly review and evaluate our activities using the performance information used in performance budgeting.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please specify here, if any, the other ways of using performance information in performance budgeting to support management activities within you ministry/agency:

**E. The questions in this section are asking your opinions and experiences about the use of performance information by budget actors in the Ministry of Planning, the Ministry of Finance, and Parliament in using performance information for budgeting process.**

Please tick (✓) one appropriate answer for each question.

1. The use of performance information by Ministry of Planning.

Budget officials in the Ministry of Planning actively use:	Strongly Agree	Agree	Neither Agree Nor Disagree	Disagree	Strongly Disagree
	(1)	(2)	(3)	(4)	(5)
To review and examine the relationship between the budgets proposed by my ministry/agency and the performance targets planned by my ministry/agency.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To review the relationship between the budget proposed by my ministry/agency and the performance scores/results of my ministry/agency.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To make budget cuts and budget increases, as proposed by my ministry/agency.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To fulfil formal requirements in planning and budgeting process. In reviewing the budget proposed by ministry/agency, the Ministry of Planning more focused on the aggregate amount of the budget (costs as inputs) than focused on performance targets.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
As a basis to conduct regular reviews of the ministry's performance using performance evaluation results.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please specify here, if any, the other ways of using performance information by the Ministry of Planning:

2. The use of performance information by the Ministry of Finance.

Budget examiners in the Ministry of Finance actively use performance information:	Strongly Agree	Agree	Neither Agree Nor Disagree	Disagree	Strongly Disagree
	(1)	(2)	(3)	(4)	(5)
To review and examine the relationship between the budget proposed by my ministry/agency and the performance targets planned by my ministry/agency.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To review the relationship between the budget proposed by my ministry/agency and the performance scores/results of my ministry/agency.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To make budget cuts and budget increases, as proposed by my ministry/agency.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To fulfil formal requirements in planning and budgeting process. In reviewing the budget proposed by ministry/agency, Directorate-General of Budget more focused on the aggregate amount of the budget (costs as inputs) than focused on performance targets.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
As a basis to conduct regular reviews of ministry's performance using performance evaluation results.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please specify here, if any, the other ways of using performance information by the Ministry of Finance in budgeting process:

3. The use of performance information by Parliament.

Members of Parliament use performance information:	Strongly Agree	Agree	Neither Agree Nor Disagree	Disagree	Strongly Disagree
	(1)	(2)	(3)	(4)	(5)
To make approvals of budget cuts or budget increases in Budget Meetings.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To inform them in making budget decisions but they are not necessarily related to budget cuts or budget increases.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
To assist them in making decisions in non-budgeting meetings which discuss a programme/activity of the ministry/agency.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please specify here, if any, the other ways of using performance information by Parliament in budgeting process:

--

**F. The questions in this section are asking your opinions and experiences about support from top management in using performance information and performance cultures within your ministry/agency.**

Statements	Strongly Agree	Agree	Neither Agree Nor Disagree	Disagree	Strongly Disagree
	(1)	(2)	(3)	(4)	(5)
My ministry/agency is very much oriented to performance. We regularly measure our performance by performance information used in performance budgeting or our own performance management system.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My ministry conducts regular meetings to evaluate our performance and to discuss the ways to improve performance.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Our top management is very concerned with performance and performance information. They always examine our activities with performance targets and performance results.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Our top management is concern that performance of our ministry/agency is measured based on the budget spending only.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Our top management is concerned that performance of our ministry/agency is measured based on the combination of budget spending and the achievement Outcomes and Outputs as stated in the Minister of Finance Regulation (PMK) number 249/PMK.02/2011.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Our top management is rather reluctant to use performance information to measure the success or the failure of their divisions.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Our top management measures the success or the failure of their subordinates using performance information.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Our top management uses performance information to motivate their subordinates.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Most employees in our ministry/agency understand that their divisions' performance is measured by performance budgeting.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**G. The questions in this section are asking your opinions and experiences about the challenges faced by your ministry/agency in using performance information.**

Statements	Strongly Agree	Agree	Neither Agree Nor Disagree	Disagree	Strongly Disagree
	(1)	(2)	(3)	(4)	(5)
Performance information in performance budgeting cannot accurately measure the whole performance of an organisation.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Performance information in performance budgeting cannot accurately measure the whole performance of an organisation.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My ministry/agency faces difficulty in choosing the right performance indicators that fit with its missions and functions.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The outcomes of our Programmes are difficult to measure.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The outputs of our Activities are difficult to measure.					
It is difficult to get the attention from top management in using performance information.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The use of performance information adds paper-work and time-consuming data collection and reporting.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The benefit of using performance information is not clear.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
A credible information system is needed to produce performance information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My ministry/agency is finding it difficult to have good quality and credible performance information.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My ministry/agency is finding it difficult to have performance information in a timely manner.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The Minister of Finance Regulation (PMK) number 249/PMK.02/2011 is not really credible measurement system to evaluate the performance of my ministry/agency.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please specify here, if any, the other the challenges faced by your ministry/agency in using performance information.



**Thank you**

**Survei Pemanfaatan Informasi Kinerja  
dalam Penganggaran Berbasis Kinerja (PBK) Kementerian/Lembaga  
di Indonesia**

**Latar Belakang dan Tujuan Survei**

Pada pertengahan tahun 2009 Indonesia melakukan reformasi perencanaan dan penganggaran yang secara bertahap mulai diberlakukan pada proses dan dokumen penganggaran tahun anggaran 2011. Peraturan Pemerintah Nomor 90 Tahun 2010 menyebutkan bahwa Rencana Kerja dan Anggaran Kementerian/Lembaga (RKA-K/L) disusun dengan tiga pendekatan: Kerangka Pengeluaran Jangka Menengah (KPJM), penganggaran terpadu, dan penganggaran berbasis kinerja (PBK).

Informasi kinerja, yang meliputi indikator/target kinerja dan evaluasi kinerja, merupakan bagian yang sangat penting dalam proses penganggaran. PP Nomor 90 Tahun 2010 menyatakan bahwa informasi kinerja digunakan dalam penyusunan usulan anggaran. Instrumen yang digunakan dalam penyusunan RKA-K/L adalah indikator kinerja, standar biaya, dan evaluasi kinerja. Untuk melakukan evaluasi kinerja, Kementerian Keuangan menerbitkan PMK No. 249/PMK.02/2011 sebagai pedoman bagi setiap Kementerian/Lembaga (K/L) dalam melakukan evaluasi terhadap RKA-K/L secara *self-assessment* untuk menghasilkan nilai kinerja.

Survei ini dilaksanakan sebagai bagian dari penelitian yang kami lakukan dalam rangka penyusunan tesis program PhD di Institute of Local Government Studies, University of Birmingham, Inggris. Tujuan penelitian adalah untuk mengetahui sejauh mana informasi kinerja secara nyata dimanfaatkan oleh K/L baik pada proses penganggaran maupun sebagai bagian dari manajemen kinerja K/L secara keseluruhan. Cakupan survei ini adalah proses penganggaran tahun anggaran 2011 s.d. 2014.

**Siapa yang mengisi survei dan sifat survei**

Survei ini disampaikan kepada setiap K/L sebagai pengguna anggaran. Survei ini mohon diisi oleh Kepala Biro Perencanaan atau Pejabat Senior yang memahami proses perencanaan, penganggaran dan manajemen kinerja pada Biro Perencanaan atau Unit Organisasi Eselon II sejenis di masing-masing K/L sebagai wakil resmi dari setiap K/L. Partisipasi Bapak/Ibu dalam survei ini bersifat sukarela dan pengiriman jawaban survei merupakan bukti kesediaan Bapak/Ibu untuk berpartisipasi.

Survei ini menanyakan pendapat dan pengalaman setiap K/L dalam pemanfaatan informasi kinerja di lingkungan K/L masing-masing dan bagaimana informasi kinerja digunakan dalam proses penganggaran dan manajemen kinerja.

Informasi kinerja yang dimaksud pada survei ini meliputi Indikator Kinerja/target kinerja yang tercantum pada berbagai bentuk dokumen perencanaan dan penganggaran dan hasil evaluasi kinerja dan skor kinerja berdasarkan PMK Nomor 249/PMK.02/2011.

Kami mohon agar survei ini dapat dijawab sesuai dengan kondisi yang senyatanya. Setiap jawaban survei menjadi informasi yang berharga untuk penelitian ini.



### Kerahasiaan Jawaban Survei

Kami menyatakan bahwa informasi yang didapatkan dari survei ini hanya akan digunakan untuk keperluan penelitian dan publikasi yang terkait dengan tesis peneliti. Informasi pribadi yang disampaikan dalam jawaban survei akan kami jaga kerahasiaannya.

### Cara dan Batas Waktu Pengiriman Jawaban Survei

Survei yang telah berisi jawaban dikirim **paling lambat 14 Februari 2014** kepada kami dengan tiga alternatif:

5. Jawaban survei dimasukkan dalam amplop berperangko yang sudah disediakan dan dikirimkan ke alamat: [redacted]; atau
6. Survei yang sudah diisi dapat di-scan dalam bentuk PDF dan dikirimkan ke alamat email [redacted]; atau
7. Jawaban survei dapat diambil langsung oleh peneliti. Kami dapat dihubungi di nomor [redacted] 1.

### Informasi Lebih Lanjut

Terima kasih atas partisipasi dan kerja sama Bapak/Ibu. Untuk informasi lebih lanjut mengenai survei ini, Bapak/Ibu dapat menghubungi:

#### Teguh Widodo

Peneliti

PNS pada BPK yang sedang tugas belajar pada Program PhD di Institute of Local Government Studies, University of Birmingham, Inggris

Nomor telepon: +62 815 86 21 20 21 (Indonesia), +44 7933403884 (UK)

Email: teguhwidodo@gmail.com, txw244@bham.ac.uk

### Pertanyaan Survei

#### Definisi Informasi Kinerja:

Informasi kinerja yang dimaksud pada survei ini meliputi indikator kinerja/target kinerja (Keluaran dan Hasil) yang tercantum pada berbagai bentuk dokumen perencanaan dan penganggaran K/L (Renja, RKA-K/L, DIPA) dan hasil evaluasi kinerja/skor kinerja berdasarkan PMK Nomor 249/PMK.02/2011.

### H. Informasi Umum

3. Nama Kementerian/Lembaga :  
.....
4. Informasi pengisi jawaban survei :
  - d. Nama :  
.....
  - e. Nama Unit Organisasi Eselon II/Biro :  
.....
  - f. Jabatan :  
.....
  - g. Mohon jelaskan secara singkat peran Bapak/Ibu dalam proses penganggaran:

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- h. Berapa lama Bapak/Ibu telah bekerja di Unit Eselon II ini? (mohon pilih salah satu jawaban):

Kurang dari 2 tahun	<input type="checkbox"/>
Antara 2 s.d. 4 tahun	<input type="checkbox"/>
Lebih dari 4 tahun	<input type="checkbox"/>

**I. Bagian ini berisi pertanyaan tentang pendapat dan pengalaman anda dalam penentuan alokasi anggaran K/L pada periode TA 2011 s.d. 2014.**

Untuk pertanyaan nomor 1 s.d. 3, mohon pilih salah satu jawaban pada masing-masing pertanyaan dengan memberi tanda (**X**). Silahkan dikosongkan jika anda tidak tahu jawabannya.

No.	Pernyataan	Sangat Setuju	Setuju	Netral	Tidak Setuju	Sangat Tidak Setuju
		(1)	(2)	(3)	(4)	(5)
1.	Bappenas dan Kementerian Keuangan menggunakan <b>target kinerja</b> sebagai faktor utama yang secara langsung mempengaruhi jumlah Pagu Indikatif K/L.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.	Kementerian Keuangan menggunakan <b>target kinerja</b> sebagai faktor utama yang secara langsung mempengaruhi jumlah Pagu Anggaran dan Alokasi Anggaran K/L.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.	Bappenas dan Kementerian Keuangan menggunakan <b>nilai evaluasi kinerja</b> sebagai faktor utama yang secara langsung mempengaruhi jumlah Pagu Indikatif, Pagu Anggaran, dana Alokasi Anggaran K/L.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

8. Dua belas faktor berikut merupakan faktor-faktor yang menentukan besarnya anggaran suatu K/L. Berdasarkan pengalaman anda dalam mengikuti proses penganggaran, mohon **urutkan** faktor-faktor berikut mulai dari 1 s.d. 12 pada kolom Peringkat, dengan nomor 1 adalah faktor

yang paling menentukan s.d. nomor 12 sebagai faktor yang paling kurang menentukan besarnya anggaran.

No.	Faktor yang mempengaruhi besarnya anggaran K/L	Peringkat
a.	Penyerapan anggaran K/L tahun-tahun sebelumnya	
b.	Alokasi anggaran K/L tahun-tahun sebelumnya	
c.	Kebijakan Tahunan Presiden/Kebijakan Prioritas Nasional pada Rencana Kerja Pemerintah (RKP)	
d.	Penyesuaian baseline dari K/L yang disampaikan kepada Ditjen Anggaran	
e.	Diskusi dan negosiasi informal Sekjen/Sestama/Sesmen/Pejabat Biro Perencanaan K/L kepada pihak di Bappenas dan Ditjen Anggaran sebelum pagu terbit.	
f.	Negosiasi Pejabat K/L kepada Komisi/Banggar DPR	
g.	Usulan anggaran Inisiatif Baru kepada Bappenas dan Ditjen Anggaran	
h.	Perkiraan jumlah anggaran tahunan yang tercantum pada Kerangka Pengeluaran Jangka Menengah (KPJM) 2010-2014	
i.	Hasil penelaahan RKA-K/L oleh Bappenas dan Ditjen Anggaran	
j.	Hasil kesepakatan K/L dengan DPR	
k.	Target Kinerja yang disampaikan kepada Bappenas dan Kementerian K/L pada dokumen Renja K/L dan RKA-K/L	
l.	Hasil evaluasi kinerja tahun-tahun sebelumnya yang diukur berdasarkan PMK No. 249/KMK.02/2011	

Jika ada, mohon sebutkan faktor lainnya yang mempengaruhi besarnya anggaran K/L anda:

**J. Bagian ini menanyakan pendapat dan pengalaman anda tentang pemanfaatan informasi kinerja untuk proses penganggaran di lingkungan K/L anda.**

Untuk setiap pertanyaan pada bagian ini, mohon pilih salah satu jawaban pada masing-masing pertanyaan dengan memberi tanda (X). Silahkan dikosongkan jika anda tidak tahu jawabannya.

**3. Pemanfaatan informasi kinerja oleh K/L anda dalam proses penganggaran di Bappenas, Ditjen Anggaran dan DPR.**

K/L kami menggunakan informasi kinerja untuk:	Sangat Setuju	Setuju	Netral	Tidak Setuju	Sangat Tidak Setuju
	(1)	(2)	(3)	(4)	(5)
Memenuhi persyaratan formal proses perencanaan dan penganggaran yang diminta Bappenas dan Ditjen Anggaran.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

K/L kami menggunakan informasi kinerja untuk:	Sangat Setuju	Setuju	Netral	Tidak Setuju	Sangat Tidak Setuju
	(1)	(2)	(3)	(4)	(5)
Menentukan besarnya anggaran yang diajukan kepada Bappenas, Ditjen Anggaran dan DPR. Selama ini, K/L kami secara sadar menyesuaikan besarnya anggaran yang diajukan dengan Target Kinerja yang direncanakan.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Menentukan besarnya anggaran yang diajukan kepada Bappenas, Ditjen Anggaran dan DPR. Selama ini, K/L kami secara sadar menyesuaikan besarnya anggaran yang diajukan dengan Hasil Kinerja yang dicapai pada tahun sebelumnya.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Alat pendukung dalam meyakinkan para Penelaah di Bappenas dan Ditjen Anggaran dalam diskusi terkait anggaran yang diajukan dengan target kinerja yang direncanakan.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Alat pendukung dalam meyakinkan para Penelaah di Bappenas dan Ditjen Anggaran dalam diskusi terkait anggaran yang diajukan dengan kinerja yang telah dihasilkan pada tahun-tahun sebelumnya.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Disampaikan/dipresentasikan dalam Rapat Dengar Pendapat dengan DPR dalam rangka meyakinkan DPR terhadap anggaran yang diajukan.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Jika ada, mohon jelaskan hal lain tentang bagaimana K/L anda menggunakan informasi kinerja dalam proses penganggaran:

4. Pemanfaatan informasi kinerja oleh K/L anda dalam proses penganggaran di lingkungan internal K/L.

Dalam mengalokasikan anggaran kepada setiap Satuan Kerja (Satker), K/L kami:	Sangat Setuju	Setuju	Netral	Tidak Setuju	Sangat Tidak Setuju
	(1)	(2)	(3)	(4)	(5)
Hanya menggunakan informasi kinerja untuk memenuhi persyaratan formal proses perencanaan dan penganggaran yang diminta Bappenas dan Ditjen Anggaran.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Menggunakan informasi kinerja sebagai dasar melakukan pemotongan atau pengurangan anggaran yang diajukan K/L.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Masih berpedoman pada jumlah anggaran Satker tahun-tahun sebelumnya daripada informasi kinerja dalam menentukan alokasi anggaran Satker.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Dalam mengalokasikan anggaran kepada setiap Satuan Kerja (Satker), K/L kami:	Sangat Setuju	Setuju	Netral	Tidak Setuju	Sangat Tidak Setuju
	(1)	(2)	(3)	(4)	(5)
Masih berpatokan pada besarnya realisasi anggaran Satker tahun-tahun sebelumnya daripada informasi kinerja dalam menentukan alokasi anggaran Satker.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Berpatokan pada kombinasi antara besarnya alokasi anggaran dan realisasi anggaran Satker tahun-tahun sebelumnya daripada informasi kinerja dalam menentukan alokasi anggaran Satker.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Menggunakan informasi kinerja sebagai alat pendukung dalam membuat keputusan besarnya jumlah anggaran setiap Satker.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Menggunakan kombinasi beberapa faktor seperti informasi kinerja, alokasi anggaran tahun-tahun sebelumnya, realisasi anggaran tahun-tahun sebelumnya dalam menentukan alokasi anggaran Satker.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Jika ada, mohon jelaskan hal lain tentang bagaimana K/L anda menggunakan informasi kinerja atau pertimbangan-pertimbangan lain yang digunakan dalam proses alokasi anggaran di lingkungan internal:

**K. Bagian ini menanyakan pendapat dan pengalaman anda tentang pemanfaatan informasi kinerja sebagai bagian sistem manajemen kinerja di K/L anda.**

Untuk setiap pertanyaan pada bagian ini, mohon pilih salah satu jawaban pada masing-masing pertanyaan dengan memberi tanda **(X)**. Silahkan dikosongkan jika anda tidak tahu jawabannya.

Pernyataan	Sangat Setuju	Setuju	Netral	Tidak Setuju	Sangat Tidak Setuju
	(1)	(2)	(3)	(4)	(5)
Informasi Kinerja yang digunakan dalam Penganggaran Berbasis Kinerja (PBK) sudah terintegrasi ke dalam sistem manajemen kinerja di K/L kami.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Informasi kinerja dalam PBK tidak dapat digunakan dalam sistem manajemen kinerja di K/L kami.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Pernyataan	Sangat Setuju	Setuju	Netral	Tidak Setuju	Sangat Tidak Setuju
	(1)	(2)	(3)	(4)	(5)
K/L kami mempunyai sistem manajemen kinerja tersendiri selain penggunaan PBK.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Informasi kinerja yang ada PBK digunakan untuk menyusun berbagai Laporan Kinerja kepada Bappenas, Kementerian Keuangan dan pihak-pihak lainnya.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
K/L kami menggunakan informasi kinerja untuk membuat perbaikan yang diperlukan guna meningkatkan kinerja dan kualitas kegiatan atau program.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
K/L kami menggunakan informasi kinerja untuk mendapat dukungan publik terhdap kegiatan yang kami kerjakan.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Para manajer di K/L kami menggunakan informasi kinerja untuk lebih memahami kegiatan dan program yang sedang mereka kerjakan, yang kemudian dapat digunakan untuk perbaikan dan peningkatan kinerja.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Aparat Pengawas Internal di K/L kami secara berkala melakukan reviu dan evaluasi kinerja Satker dengan menggunakan informasi kinerja yang digunakan pada PBK.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Jika ada, mohon jelaskan hal lain tentang bagaimana K/L anda menggunakan informasi kinerja dalam PBK sebagai bagian dari sistem manajemen kinerja di lingkungan internal:

**L. Bagian ini menanyakan pendapat dan pengalaman anda tentang pemanfaatan informasi kinerja oleh para pelaku anggaran dalam proses penganggaran.**

Untuk setiap pertanyaan pada bagian ini, mohon pilih salah satu jawaban pada masing-masing pertanyaan dengan memberi tanda **(X)**. Silahkan dikosongkan jika anda tidak tahu jawabannya.

**4. Pemanfaatan informasi kinerja oleh Bappenas.**

Bappenas menggunakan informasi kinerja untuk:	Sangat Setuju	Setuju	Netral	Tidak Setuju	Sangat Tidak Setuju
	(1)	(2)	(3)	(4)	(5)
Menelaah hubungan antara besarnya anggaran yang diajukan K/L dengan target kinerja yang direncanakan.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Menelaah hubungan antara besarnya anggaran yang diajukan dengan hasil kinerja K/L pada tahun-tahun sebelumnya.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Melakukan pemotongan atau pengurangan anggaran yang diajukan K/L.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Memenuhi persyaratan formal proses perencanaan dan penganggaran saja. Dalam menelaah anggaran, Bappenas lebih fokus pada nilai anggaran (Masukan) dan jumlah anggaran secara agregat, bukan Kinerja (Keluaran dan Hasil) yang ditargetkan.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Sebagai pedoman dalam melakukan reviu secara berkala terhadap kinerja K/L dengan menggunakan hasil evaluasi kinerja.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Jika ada, mohon jelaskan hal lain tentang bagaimana Bappenas menggunakan informasi kinerja dalam proses penganggaran:

##### 5. Pemanfaatan informasi kinerja oleh Direktorat Jenderal Anggaran.

Para Penelaah RKA-K/L di Ditjen Anggaran menggunakan informasi kinerja untuk:	Sangat Setuju	Setuju	Netral	Tidak Setuju	Sangat Tidak Setuju
	(1)	(2)	(3)	(4)	(5)
Menelaah hubungan antara besarnya anggaran yang diajukan K/L dengan target kinerja yang direncanakan.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Menelaah hubungan antara besarnya anggaran yang diajukan dengan hasil kinerja K/L pada tahun-tahun sebelumnya	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Melakukan pemotongan atau pengurangan anggaran yang diajukan K/L.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Para Penelaah RKA-K/L di Ditjen Anggaran menggunakan informasi kinerja untuk:	Sangat Setuju	Setuju	Netral	Tidak Setuju	Sangat Tidak Setuju
	(1)	(2)	(3)	(4)	(5)
Memenuhi persyaratan formal proses perencanaan dan penganggaran saja. Dalam menelaah anggaran, Penelaah lebih fokus pada nilai anggaran (Masukan), bukan Kinerja (Keluaran dan Hasil) yang ditargetkan.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Melakukan reviu secara berkala terhadap kinerja K/L dengan menggunakan hasil evaluasi kinerja.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Jika ada, mohon jelaskan hal lain tentang bagaimana Ditjen Anggaran menggunakan informasi kinerja dalam proses penganggaran:

#### 6. Pemanfaatan Informasi Kinerja oleh Dewan Perwakilan Rakyat (DPR).

Para Anggota DPR menggunakan informasi kinerja untuk:	Sangat Setuju	Setuju	Netral	Tidak Setuju	Sangat Tidak Setuju
	(1)	(2)	(3)	(4)	(5)
Menyetujui penambahan atau pengurangan anggaran dalam Rapat Dengar Pendapat	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Membantu mereka sebagai masukan dalam membuat keputusan yang terkait dengan anggaran tetapi tidak langsung berakibat pada penambahan atau pengurangan anggaran.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Membantu mereka sebagai masukan dalam keputusan pada rapat atau pembahasan program/kegiatan K/L yang tidak terkait dengan proses penganggaran.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Jika ada, mohon jelaskan hal lain tentang bagaimana DPR menggunakan informasi kinerja baik dalam proses penganggaran maupun dalam diskusi atau pembahasan kegiatan K/L lainnya di DPR:



**M. Bagian ini menanyakan pendapat dan pengalaman anda tentang budaya kinerja dan dukungan dari Pimpinan K/L dalam pemanfaatan informasi kinerja.**

Untuk setiap pertanyaan pada bagian ini, mohon pilih salah satu jawaban pada masing-masing pertanyaan dengan memberi tanda **(X)**. Silahkan dikosongkan jika anda tidak tahu jawabannya.

Pernyataan	Sangat Setuju	Setuju	Netral	Tidak Setuju	Sangat Tidak Setuju
	(1)	(2)	(3)	(4)	(5)
K/L kami berorientasi kinerja. Kami selalu mengukur kinerja dengan informasi kinerja yang dihasilkan oleh PBK atau sistem manajemen kinerja yang ada pada K/L kami.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
K/L kami melaksanakan pertemuan rutin untuk mengevaluasi kinerja dan mendiskusikan bagaimana cara meningkatkan kinerja.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Jajaran Pimpinan (Menteri/Kepala, Pejabat setingkat Menteri di jajaran eselon I) di K/L kami sangat memperhatikan informasi kinerja. Mereka selalu mengkaitkan kegiatan yang kami lakukan dengan informasi kinerja (target kinerja yang direncanakan dan hasil yang telah dicapai).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Jajaran Pimpinan (Menteri/Kepala, Pejabat setingkat Menteri di jajaran eselon I) di K/L kami hanya memahami bahwa kinerja K/L diukur dari penyerapan anggaran.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Jajaran Pimpinan (Menteri/Kepala, Pejabat setingkat Menteri di jajaran eselon I) dan pegawai di K/L memahami bahwa kinerja K/L diukur dari kombinasi antara penyerapan anggaran dan pencapaian Keluaran dan Hasil seperti yang dimaksud dalam PMK No. 249/PMK.02/2011.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Jajaran Pimpinan (Menteri/Kepala, Pejabat setingkat Menteri di jajaran eselon I) di K/L kami enggan menggunakan informasi kinerja untuk menilai keberhasilan Satkernya.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Jajaran Pimpinan (Menteri/Kepala, Pejabat setingkat Menteri di jajaran eselon I) di K/L kami mengukur keberhasilan suatu Satker atau bawahannya berdasarkan Hasil Kinerja yang dihasilkan oleh PBK atau sistem manajemen kinerja yang ada di K/L kami.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Jajaran Pimpinan (Menteri/Kepala, Pejabat setingkat Menteri di jajaran eselon I) di K/L saya selalu memotivasi bawahannya dengan menggunakan informasi kinerja.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Pernyataan	Sangat Setuju	Setuju	Netral	Tidak Setuju	Sangat Tidak Setuju
	(1)	(2)	(3)	(4)	(5)
Sebagian besar pegawai di K/L saya sudah memahami bahwa kinerja Satker mereka dievaluasi melalui proses Penganggaran Berbasis Kinerja selain dengan sistem manajemen kinerja lainnya.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Jika ada, mohon jelaskan hal lain terkait budaya kinerja di K/L anda:

**N. Bagian ini menanyakan pendapat dan pengalaman mengenai tantangan dalam penggunaan informasi kinerja.**

Untuk setiap pertanyaan pada bagian ini, mohon pilih salah satu jawaban pada masing-masing pertanyaan dengan memberi tanda **(X)**. Silahkan dikosongkan jika anda tidak tahu jawabannya.

Pernyataan	Sangat Setuju	Setuju	Netral	Tidak Setuju	Sangat Tidak Setuju
	(1)	(2)	(3)	(4)	(5)
Informasi kinerja dalam PBK kurang akurat untuk menilai keberhasilan suatu K/L atau Satker.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
K/L kami kesulitan dalam menentukan indikator kinerja (Keluaran dan Hasil) yang tepat dan dapat menggambarkan misi dan tugas fungsi organisasi.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Outcome/Hasil dari Program-program yang ada pada K/L kami sulit diukur.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Output/Keluaran dari Kegiatan-Kegiatan yang ada pada K/L kami sulit diukur.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Kami kesulitan mendapatkan perhatian dari Pimpinan mengenai penggunaan informasi kinerja	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Penggunaan informasi kinerja menambah beban kerja dan menguras waktu yang terkait dengan pengumpulan data dan penyusunan laporan.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Manfaat dari penggunaan informasi kinerja sampai saat ini belum terlihat dengan jelas.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Pernyataan	Sangat Setuju	Setuju	Netral	Tidak Setuju	Sangat Tidak Setuju
	(1)	(2)	(3)	(4)	(5)
Untuk memproduksi informasi kinerja membutuhkan bantuan sistem informasi yang andal.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
K/L kami kesulitan untuk mempunyai informasi kinerja yang kualitasnya bagus dan kredibel.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
K/L kami kesulitan untuk mendapatkan informasi kinerja yang tepat waktu sesuai kebutuhan.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
PMK No. 249/PMK.02/2011 belum merupakan sistem penilaian kinerja yang dapat diandalkan untuk dapat mengevaluasi kinerja K/L.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Jika ada, mohon jelaskan tantangan lain yang dihadapi K/L anda dalam penggunaan informasi kinerja.

O. Jika ada, mohon disampaikan hal-hal lain tentang penggunaan informasi kinerja di K/L anda.

**Terima kasih**